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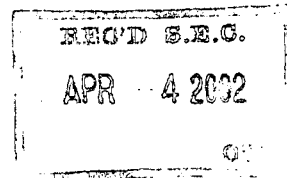
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BayCorp

HOLDINGS, LTD.

2001

ANNUAL REPORT



LETTER TO SHAREHOLDERS

This past year was a volatile time for the nation and it seemed especially so for companies in the energy business. From the sudden collapse of Enron to increased security at nuclear plants resulting from the tragic events of September 11th, BayCorp was directly affected by the turmoil in the energy sector. This volatility carried over to the stock prices of many energy companies. While a number of energy company stocks, particularly those of independent power producers and energy trading companies, were down 30% to 50% or more, BayCorp's stock price held up well. BayCorp's stock price finished the year at \$9.40 per share, up 42% for the year. This represents a solid performance in a difficult environment, particularly when compared to the overall stock market and other independent power producer and energy stocks.

BayCorp started 2001 in a tenuous cash position. Seabrook was in the middle of what was ultimately to be a 100 day refueling outage, extended by nearly 70 days due to damage to one of the plant's emergency diesel generators. Due to the extended shutdown, BayCorp needed to secure bridge financing to meet its Seabrook payment obligations for the months of February and March 2001. Once Seabrook returned to service, however, BayCorp was able to replenish its depleted cash reserves, repay the bridge financing in its entirety and significantly improve the Company's financial position. To show just how dramatic the improvement was, on December 31, 2000 BayCorp had working capital (current assets less current liabilities) of \$283,000 and a current ratio of 1.0, whereas on December 31, 2001 the Company's working capital had increased to \$22,636,000 and its current ratio was 4.3.

Seabrook Operations

As I have explained in previous shareholder letters, since most of the Seabrook costs are fixed, the economics of the Seabrook plant are driven largely by two factors: (1) capacity factor and (2) New England wholesale power prices. Capacity factor is the actual plant output divided by the output that would be achieved if the plant operated at its maximum capacity throughout the period. Since no refueling outage had been planned for 2001, we had expected a high capacity factor. Due to the extended refueling outage, however, Seabrook did not return to operation until February 1, 2001. For the full year, Seabrook operated at a capacity factor of 85.8%. From February 1 through the remainder of 2001, Seabrook operated at a very respectable 93.3% capacity factor.

The tragic events of September 11th have resulted in changes to the way Seabrook and other nuclear plants are being protected. Already some of the most secure industrial facilities in the country, nuclear plants have made a number of changes in response to the new threats that face our nation. While the NRC continues to examine the issue, we do know that securing Seabrook against this threat will result in increased operating and capital costs for the foreseeable future.

Wholesale power prices steadily declined throughout 2001. For example, the average NEPOOL energy clearing price for the month of January 2001 was \$62.57 per megawatt hour. In December 2001, however, the average clearing price had fallen to \$27.18 per megawatt hour. Fortunately, Great Bay sold a fair amount of its 2001 Seabrook entitlement forward during a period of higher power prices to hedge against price volatility and thus achieved a 12% increase in its average sales price for energy and capacity in 2001. Great Bay's average sales price in 2001 was \$42.85 per megawatt hour as compared to \$38.74 per megawatt hour in 2000. Great Bay's short-term sales price was 5% higher than the NEPOOL energy clearing price in 2001 during times of Seabrook operation, resulting in additional net income to shareholders of \$2.4 million, or approximately \$0.28 per share in 2001. This strategy of actively managing our Seabrook entitlement created value for shareholders as compared to a strategy of simply taking the market clearing price from NEPOOL.

As discussed below, the Seabrook auction process is now well underway. It appears likely that BayCorp will sell its interest in Seabrook later this year. In a continued effort to hedge against price volatility, we decided to sell forward all of our Seabrook entitlement through September 2002. We were able to make these sales at an average price of \$40.59 per megawatt hour and on a unit contingent basis (as opposed to a firm

sale), so we do not assume any replacement power risk in the event of a scheduled or unscheduled outage at Seabrook. After we made our forward sales, wholesale power prices continued to decline such that this average sales price through September 2002 is well above current market prices and secures positive cash flow of approximately \$5.3 million through September, assuming a 40 day refueling outage and a 92% capacity factor during non-refueling periods at Seabrook. Seabrook's next refueling is scheduled to start on May 4, 2002.

It is impossible to reflect on the energy sector in 2001 without mentioning Enron. Unfortunately, BayCorp was not immune from the effects of Enron's collapse. In January, we announced that Enron terminated its power purchase contracts with Great Bay which provided for purchases of power by Enron through December 31, 2001. Fortunately, we have no contracts with Enron for periods beyond December 31, 2001. Enron owes approximately \$1.1 million to Great Bay for power delivered prior to Enron's Chapter 11 bankruptcy filing on December 2, 2001. Great Bay also had an administrative claim of approximately \$684,000 for power delivered after Enron's bankruptcy filing and prior to the termination of the contracts, which Enron paid in February 2002. We took a charge to earnings in the fourth quarter of 2001 of approximately \$1.1 million, or \$0.13 cents per share, to establish a reserve for doubtful accounts due to the current uncertainty of collecting the remaining amounts owed by Enron to Great Bay. Any recovery on our claim as part of Enron's Chapter 11 case would represent a one-time non-recurring gain for BayCorp.

Seabrook Auction

As part of deregulation legislation in Connecticut and New Hampshire, Northeast Utilities ("NU"), the operator and largest owner of Seabrook, is required to sell its ownership interests in Seabrook by December 31, 2003. In October 2000, BayCorp announced that it had reached an agreement with NU to join with NU in the sale of BayCorp's 15% ownership interest in Seabrook. By combining to sell our share with NU and several other owners, the ultimate purchaser will be able to acquire an 88% ownership interest in the plant. We believe this will result in the best possible price for BayCorp's share of Seabrook. The auction process began in earnest in September 2001 with the selection of J.P. Morgan as the sale manager for the auction. We anticipate the selection of the winning bidder in the second quarter of 2002 and expect the closing to occur by the end of the year.

Under the terms of our agreement with NU, BayCorp will receive the sales price established by the auction process. In the event that the sale yields proceeds for BayCorp of more than \$87.2 million, BayCorp and NU will share the excess proceeds. Should BayCorp's sales proceeds be less than \$87.2 million, NU will make up the difference below that amount on a dollar for dollar basis up to a maximum of \$17.4 million. Under the agreement, BayCorp will be paid separately for nuclear fuel and inventory, which we expect will yield between \$10 million and \$14 million in cash to BayCorp. The agreement also limits any top-off amount required to be funded by BayCorp for decommissioning as part of the sale process at the amount required by Nuclear Regulatory Commission regulations. As part of the sale, we anticipate that BayCorp will transfer virtually all of its liabilities, including the decommissioning liability, and retain all of its cash in addition to the proceeds from the auction.

HoustonStreet

HoustonStreet was right in the middle of the dotcom boom and bust. Just as investors uncritically bid up the values of anything remotely Internet-related, they were equally indiscriminate on the way down. Many of HoustonStreet's competitors did not survive this shakeout. We continue to believe that HoustonStreet represents a business model that makes sense and leverages the strengths of the Internet - bringing a network of individuals from disparate geographic locations together to conduct business and exchange information at a very low cost. In order to survive, however, HoustonStreet was forced to undertake a painful restructuring and cost-cutting effort. HoustonStreet ceased its power, natural gas and European operations and focused exclusively on its platforms for trading domestic crude oil and refined products, such as gasoline, heating oil and jet fuel.

HoustonStreet was betting a large part of its future growth on its strategic agreement with EnronOnline, whereby North American electricity and natural gas prices posted on EnronOnline would have been automatically posted on HoustonStreet. HoustonStreet believes it satisfied its obligations under its agreement with Enron, but Enron elected to terminate the agreement in May 2001. HoustonStreet invoked the

arbitration clause for settling disputes in its contract with Enron, but that claim has been stayed by Enron's Chapter 11 filing and any recovery is highly uncertain.

The good news is that HoustonStreet has stabilized operations and is steadily gaining new customers and marketshare. HoustonStreet is a recognized leader in online trading of crude oil and refined products, with an estimated 10-15% share of the overall domestic physical OTC market for these products. It is back-to-basics for HoustonStreet, with a zealous focus on its customers and costs. While it is impossible to predict how this market will unfold, HoustonStreet remains focused on those things within its ability to influence and control in its effort to build a profitable, sustainable business.

Conclusion

As I mentioned in last year's Letter to Shareholders, since it now appears likely that we will sell our Seabrook asset later this year, an important question for shareholders remains, "what will you do with the cash?" The answer is simple – management and the Board of Directors are examining all of our options and will do whatever we believe provides the greatest return to shareholders. We are continuing to look for attractive energy-related investments, but if no such investments can be identified, we will return cash to shareholders in the most tax-efficient manner possible. We operate under the principle that if we can't find opportunities to invest your money that provide attractive returns, we will return it to you. I expect the Board to make a final decision later this year after the winning bidder for Seabrook has been announced and all reasonable alternatives have been fully explored. We will communicate to shareholders the Company's plan as soon as that decision has been made.

Thank you for your continued support of BayCorp. I also want to thank the dedicated employees of BayCorp, HoustonStreet and Great Bay. As our business and the energy industry continue to evolve and change, it is the dedication, perseverance and creativity exhibited by our employees that remains constant. It is something for which we should all be proud and thankful.

Frank W. Getman Jr.
Chairman, President and CEO

March 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2001

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission file number 1-12527

BAYCORP HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

02-0488443

*(I.R.S. Employer
Identification No.)*

51 Dow Highway, Suite 7

Eliot, Maine

(Address of principal executive offices)

03903

(Zip Code)

Registrant's telephone number, including area code: (207) 451-9573

222 International Drive, Suite 125

Portsmouth, New Hampshire

(Former address of principal executive offices)

03801-6809

(Former Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$.01 par value

(Title of Class)

American Stock Exchange

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

As of March 14, 2002, the approximate aggregate market value of the voting stock held by non-affiliates of the registrant was \$33,444,833 based on the last reported sale price of the registrant's Common Stock on the American Stock Exchange as of the close of business on March 14, 2002. There were 8,525,448 shares of Common Stock outstanding as of March 14, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

<u>Document</u>	<u>Part of Form 10-K into which incorporated</u>
Portions of the Registrant's Proxy Statement for the 2002 Annual Meeting of Shareholders	Items 10, 11, 12 & 13 of Part III

PART I

Item 1. *Business.*

Introduction

BayCorp Holdings, Ltd. ("BayCorp" or the "Company") is a holding company incorporated in Delaware in 1996. BayCorp owns two subsidiaries that generate and trade wholesale electricity, Great Bay Power Corporation ("Great Bay") and Little Bay Power Corporation ("Little Bay"), each of which is wholly-owned as of December 31, 2001. In addition, BayCorp owns 45.9% of HoustonStreet Exchange, Inc. ("HoustonStreet"), an Internet-based independent crude oil and refined products trading exchange.

Great Bay and Little Bay are electric generating and trading companies. Their principal asset is a combined 15% joint ownership interest in the Seabrook Nuclear Power Project in Seabrook, New Hampshire (the "Seabrook Project" or "Seabrook"). This ownership interest entitles the companies to approximately 174 megawatts ("MWs") of the Seabrook Project's power output. Great Bay and Little Bay are exempt wholesale generators ("EWGs") under the Public Utility Holding Company Act of 1935 ("PUHCA"). Unlike regulated public utilities, Great Bay and Little Bay have no franchise area or captive customers. The companies sell their power in the competitive wholesale power markets.

Great Bay was incorporated in New Hampshire in 1986 and was formerly known as EUA Power Corporation. Little Bay was incorporated in New Hampshire in 1998. Great Bay sells its power, including its 12.1% share and Little Bay's 2.9% share of the electricity output of the Seabrook Project, in the wholesale electricity market, primarily in the Northeast United States. Little Bay sells its power solely to Great Bay under an intercompany agreement. Neither BayCorp nor its subsidiaries have operational responsibilities for the Seabrook Project. Great Bay currently sells all but approximately 10 MWs of its share of the Seabrook Project capacity in the wholesale short-term market. In addition to selling its power generated by Seabrook, Great Bay purchases power on the open market for resale to third parties.

Little Bay purchased a 2.9% interest in the Seabrook Project in November 1999 from Montaup Electric Company ("Montaup"), a subsidiary of Eastern Utilities Associates ("EUA"), for a purchase price of \$3.2 million, plus approximately \$1.7 million for certain prepaid items, primarily nuclear fuel and capital expenditures. In addition, Montaup prefunded the decommissioning liability associated with Little Bay's 2.9% share of Seabrook by transferring approximately \$12.4 million into Little Bay's decommissioning account, an irrevocable trust earmarked for Little Bay's share of Seabrook Project decommissioning expenses.

HoustonStreet was incorporated in Delaware in 1999. HoustonStreet is an equity investment of BayCorp. HoustonStreet developed and operates HoustonStreet.com, an Internet-based independent crude oil and refined products trading exchange in the United States.

Recent Developments

In October 2000, the Company announced that it reached an agreement with Northeast Utilities ("NU") under which the Company's generating subsidiaries, Great Bay and Little Bay, will include their aggregate 15% ownership share of the Seabrook Project in the current auction of NU's subsidiaries' shares of the Seabrook Project. Under the terms of the agreement, BayCorp will receive the sales price established by the auction process. In the event that the sale yields proceeds for BayCorp of more than \$87.2 million, BayCorp and NU will share the excess proceeds. Should BayCorp's sales proceeds be less than \$87.2 million, NU will make up the difference below that amount on a dollar for dollar basis up to a maximum of \$17.4 million. Under the agreement, BayCorp will be paid separately for nuclear fuel and inventory. The agreement also limits any top-off amount required to be funded by BayCorp for decommissioning as part of the sale process at the amount required by the Nuclear Regulatory Commission ("NRC") regulations.

In October 2001, the Company announced that the New Hampshire Public Utilities Commission ("NHPUC") and the Connecticut Department of Public Utility Control ("CDPUC") selected J.P. Morgan as their financial advisor for the sale of ownership interests in the Seabrook Project. J.P. Morgan will manage the sale under the oversight of the NHPUC and the CDPUC. J.P. Morgan managed the recent sales of the

Millstone Connecticut and Vermont Yankee nuclear plants. In December 2001, the NHPUC, in coordination with the CDPUC, announced the start of the auction of 88.2% of the ownership shares of the Seabrook Project. The Company anticipates the closing of the sale in the fourth quarter of 2002.

With continued uncertainty about the possibility of additional terrorist activities in the United States, the Nation's nuclear power plants, including the Seabrook Project, remain at a high level of security. Immediately after the attacks in New York and Washington D.C. on September 11, 2001, management of the Seabrook Project activated enhanced security measures. On February 25, 2002, the NRC issued an order to all nuclear plant licensees, requiring them to take certain additional interim compensatory measures to address the generalized high-level threat environment. These additional compensatory requirements will provide the NRC with reasonable assurance that public health and safety and the common defense and security continue to be adequately protected in the current generalized high-level threat environment. These requirements will remain in effect pending notification from the NRC that a significant change in the threat environment occurs, or until the NRC determines that other changes are needed following a more comprehensive reevaluation of current safeguards and security programs. Seabrook remains at a high level of security and the management of Seabrook has assured the joint owners of Seabrook that they will take actions necessary to comply with the NRC order setting out the requirements for interim compensatory measures. Compliance with these requirements will result in additional incremental operating and capital costs, a prorated portion of which will be paid by Great Bay and Little Bay. Should additional security measures be required by the NRC, additional operating or capital costs could be incurred at the Seabrook Project.

On January 4, 2002, BayCorp reported that Great Bay received notice on December 21, 2001 from Enron Power Marketing, Inc. ("Enron") that Enron was terminating its contracts with Great Bay. Enron owes Great Bay \$1,075,200 for power delivered prior to Enron's Chapter 11 bankruptcy filing on December 2, 2001. Great Bay also had an administrative claim against Enron of \$684,100 for power delivered between December 2, 2001 and December 21, 2001 and an unliquidated claim for damages resulting from the termination of the contracts. Enron paid \$684,100 to Great Bay on February 21, 2002. During the fourth quarter of 2001, BayCorp recorded an expense of \$1,100,000 to establish a reserve for doubtful accounts due to the uncertainty of collecting remaining amounts owed by Enron to Great Bay for power delivered prior to Enron's Chapter 11 bankruptcy filing.

The Company owned 100% of HoustonStreet as of December 31, 1999. HoustonStreet sold capital stock in 2000 to outside investors and as a result, as of December 4, 2000, the Company's ownership fell below 50%, to 45.9%. Subsequently, the Company deconsolidated HoustonStreet as of December 4, 2000 and started accounting for this investment on the equity method.

On March 30, 2001, HoustonStreet raised approximately \$2.9 million in additional funding, including \$450,000 from BayCorp, by selling senior secured notes, warrants to purchase HoustonStreet preferred stock and warrants to purchase HoustonStreet common stock. Collectively, these securities are referred to as the "HoustonStreet Series C Units." In April 2001, BayCorp authorized HoustonStreet to convert BayCorp's \$7,000,000 loan made in 2000, along with approximately \$1,000,000 in accrued interest and penalties on the note and past due management fees, into \$8,000,000 of Series C Units. The loan, accrued interest and receivables from HoustonStreet had been written down to zero as of December 31, 2000 and as such, the conversion of these amounts had no accounting impact on BayCorp.

In 2001, HoustonStreet downsized its organization and is focusing its efforts on its crude oil and refined products trading platforms. HoustonStreet shut down its electricity-trading platform in the second half of 2001.

Current Business

BayCorp's principal wholesale electricity generation and trading assets are its 100% equity interests in Great Bay and Little Bay. The business of Great Bay and Little Bay consists of managing their joint ownership interests in the Seabrook Project and the sale in the wholesale power market of their share of electricity produced by the Seabrook Project. Neither Great Bay nor Little Bay has operational responsibility for the Seabrook Project. Great Bay is a party to one long-term power contract for approximately 10 MW of Great

Bay's share of the Seabrook Project capacity. Great Bay is also a party to a contract with Little Bay to purchase all of the output from the portion of Seabrook owned by Little Bay. This contract is renewed annually, most recently in November 2001. See "—Purchased Power Agreements." Great Bay's business strategy is to utilize unit contingent and historically, firm forward sales contracts, to maximize the value of its 174 MW power supply from the Seabrook Project.

Traditionally, Great Bay sold most of its share of the Seabrook Project electricity output under unit contingent contracts. Under unit contingent contracts, Great Bay is obligated to provide the buyer with power only when the Seabrook Project is operating. In late 1998, Great Bay began to sell some of its electricity as firm power, which entitles the buyer to electricity whether or not the Seabrook Project is operating. Buyers pay a premium for firm power over unit contingent power because they can rely on uninterrupted electricity. In order to supply firm power during unscheduled outages at the Seabrook Project, Great Bay purchases power from the spot market during these outages and resells that power to its firm power customers. Spot market sales are subject to price fluctuations based on the relative supply and demand of electricity. As a result of spot market power price fluctuations, Great Bay has had to purchase power at prices exceeding prices paid by Great Bay's firm power customers during outages. Although Great Bay bore the primary risk of these price fluctuations, Great Bay maintained insurance in 2000 and 2001 to protect Great Bay during periods of extreme price volatility, subject to certain deductibles and coverage limits. In December 2001, Great Bay cancelled this insurance. Great Bay has not entered into any firm power contracts for 2002 given the expected sale of the Seabrook Project in 2002.

The Seabrook Project

The Seabrook Project is located on an 896-acre site in Seabrook, New Hampshire. It is owned by Great Bay, Little Bay and nine other utility companies, consisting of North Atlantic Energy Company, Connecticut Light and Power, The United Illuminating Company, Canal Electric Company, Massachusetts Municipal Wholesale Electric Company, New England Power Company, New Hampshire Electric Cooperative, Inc., Taunton Municipal Lighting Plant and Hudson Light & Power Department (together with Great Bay and Little Bay, the "Participants").

Seabrook Unit 1 is a 1,150-MW nuclear-fueled steam electricity generating station. It employs a four loop, pressurized water reactor and support auxiliary systems designed by the Westinghouse Electric Company. The reactor is housed in a steel-lined reinforced concrete containment structure and a concrete containment enclosure structure. Reactor cooling water is obtained from the Atlantic Ocean through a 17,000-foot-long intake tunnel and returned through a 16,500-foot-long discharge tunnel. The station has a remaining expected license life of 24 years. Seabrook Unit 1 transmits its generated power to the New England 345 kilovolt transmission grid, a major network of interconnecting lines covering New England, through three separate transmission lines emanating from the station. On March 15, 1990, the Participants received a full power operating license from the NRC that authorizes operation of Seabrook Unit 1 until October 2026. Commercial operation of Seabrook Unit 1 commenced on August 19, 1990. Management believes that Seabrook Unit 1 is in good condition.

Since the Seabrook Project was originally designed to consist of two generating units, Great Bay and Little Bay also own a combined 15% joint ownership interest in Seabrook Unit 2. Great Bay and Little Bay assigned no value to Seabrook Unit 2 because on November 6, 1986, the joint owners of the Seabrook Project voted to dispose of Unit 2. Thereafter, Great Bay wrote off its investment in Unit 2. Little Bay has no investment in Unit 2. Certain assets of Seabrook Unit 2 have been sold from time to time to third parties. However, there have been no material sales of Unit 2 assets since July 1996.

Because Seabrook Unit 2 was never completed or operated, costs associated with its disposition are not included in the amounts collected for the decommissioning of Unit 1 and the common facilities. Great Bay and Little Bay currently pay their share of monthly expenses required to preserve and protect the value of the Seabrook Unit 2 components. The Company anticipates that Seabrook Unit 2 will be sold as part of the expected sale of the Seabrook Project in 2002. The Participants in Seabrook Unit 1 and Unit 2 have agreed to contribute their pro-rata share of \$2 million to an escrow account for the development and performance of a

plan to mitigate the visual impact of Unit 2. The contribution to the escrow account is scheduled to occur within 60 days of the closing of the sale of Seabrook.

Joint Ownership of Seabrook

Great Bay, Little Bay and the other Participants are parties to the Agreement for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units (the "JOA"), which establishes the respective ownership interests of the Participants in the Seabrook Project and defines their responsibilities with respect to the ongoing operation, maintenance and decommissioning of the Seabrook Project. In general, all ongoing costs of the Seabrook Project are divided proportionately among the Participants in accordance with their ownership interests in the Seabrook Project. Ownership interests in the Seabrook Project are several and not joint, and each Participant is only liable for its share of the Seabrook Project's costs and not liable for any other Participant's share. Great Bay and Little Bay's combined joint ownership interest of 15% is the third largest interest among the Participants, exceeded only by the approximately 40% interest held by Northeast Utilities ("NU") and its affiliates and the 17.5% interest held by The United Illuminating Company.

A Participant may sell any portion of its ownership interest to any entity that is engaged in the electric utility business in New England. Before such sale, however, such selling Participant must give certain other Participants the right of first refusal to purchase the interest on the same terms. Any Participant may transfer, free from the foregoing right of first refusal, any portion of its interest (a) to a wholly-owned subsidiary, (b) to another company in the same holding company system or a construction trust for the benefit of the transferor or another company in the same holding company system, or (c) in connection with a merger, consolidation or acquisition of substantially all of the properties or all of the generating facilities of a Participant. Eight Participants have announced that they are selling their ownership interest in the Seabrook Project as part of the current sale process underway.

The failure to make monthly payments under the JOA by owners of the Seabrook Project other than Great Bay and Little Bay may have a material effect on Great Bay and Little Bay if either should choose to pay a greater proportion of the Seabrook Unit 1 and Seabrook Unit 2 expenses in order to preserve the value of its share of the Seabrook Project. In the past, certain of the owners of the Seabrook Project other than Great Bay and Little Bay have not made their full respective payments. At the current time, the electric utility industry is undergoing significant changes as competition and deregulation have been introduced into the marketplace. If a Participant other than Great Bay or Little Bay filed for bankruptcy, and that Participant was unable to pay its share of Seabrook Project expenses, Great Bay and/or Little Bay might choose to pay a greater portion of Seabrook Project expenses. In the past, the filing of bankruptcy by a Participant has not resulted in a failure to pay Seabrook Project expenses or an increase in the percentage of expenses paid by other Participants.

The JOA provides for a Managing Agent to carry out the daily operational and management responsibilities of the Seabrook Project. The current Managing Agent, appointed by certain of the Participants on June 29, 1992, is North Atlantic Energy Service Corporation ("NAESCO"), a wholly-owned subsidiary of NU. NU, in conjunction with certain of its affiliates, holds the largest joint ownership interest in the Seabrook Project, as described above. Certain material decisions regarding the Seabrook Project are made by an Executive Committee consisting of the chief executive officers of certain of the Participants or their designees. There are currently five members of the Executive Committee. The Executive Committee acts by a majority vote of its members, although any action of the Executive Committee may be modified by a vote of 51% of the ownership interests. Frank W. Getman Jr., the Company's President and Chief Executive Officer, is currently a member of the Executive Committee. Anthony M. Callendrello, the Company's Chief Operating Officer, is a member of the Audit Committee and is Chairperson of the Budget Subcommittee and Vice Chairperson of the Non-Operating Participants Committee. Under the JOA, the managing agent of the Seabrook Project may be removed and a new managing agent appointed by a 51% interest of the Participants.

Marketing and Customers

Great Bay currently sells most of its power in the Northeast United States in the short-term wholesale power market. Great Bay does not currently depend on any single customer because a number of utilities and marketers are willing to buy Great Bay's share of electricity from the Seabrook Project at substantially the same price. Prices in the short-term market are typically higher during the summer and winter because the demand for electrical power is higher during these periods in the Northeast United States. The Company utilized unit contingent and firm forward energy trading contracts to maximize the value of the uncommitted portion of its 174-megawatt power supply from the Seabrook Project in 2001. The Company was not a party to any firm forward energy trading contracts as of December 31, 2001. Similarly, the Company does not expect to enter into firm forward energy trading contracts in 2002, in light of its expected sale of its ownership interest in the Seabrook Project in late 2002.

Purchased Power Agreements

Great Bay is party to a purchased power agreement, dated as of April 1, 1993 (the "UNITIL Purchased Power Agreement"), with UNITIL Power Corporation ("UNITIL") that provides for Great Bay to sell to UNITIL 0.8696% of the energy and capacity of Seabrook, approximately 10 MW. The UNITIL Purchased Power Agreement commenced on May 1, 1993 and runs through October 31, 2010. The current price of power under the UNITIL Purchased Power Agreement is 5.38 cents per kilowatt-hour ("kWh"). The price is subject to increase in accordance with a formula that provides for adjustments at less than the actual rate of inflation. UNITIL has an option to extend the UNITIL Purchased Power Agreement for an additional 11 years until 2022.

The UNITIL Purchased Power Agreement was front-end loaded whereby UNITIL paid higher prices, on an inflation-adjusted basis, in the early years of the Agreement and lower prices in later years. The amount of the excess paid by UNITIL in the early years of the UNITIL Purchased Power Agreement was quantified in a "Balance Account" which increased annually to a total of \$4.1 million in July 1998, and then decreased annually, reaching zero in July 2001. If the UNITIL Purchased Power Agreement had terminated prior to its scheduled termination, and if at that time there was a positive amount in the Balance Account, Great Bay would have been obligated to refund that amount to UNITIL Power. To secure the obligation of Great Bay to repay UNITIL the amount in the Balance Account, the UNITIL Purchased Power Agreement granted UNITIL a "Second Mortgage" on Great Bay's interest in the Seabrook Project. As the result of the Balance Account reaching zero in July 2001, the Second Mortgage was discharged by UNITIL in August 2001.

To secure the obligation of Great Bay under the UNITIL Purchased Power Agreement to pay damages in the event of a default by Great Bay, the UNITIL Purchased Power Agreement grants UNITIL a "Third Mortgage" on Great Bay's interest in the Seabrook Project. The Third Mortgage is subject and subordinate to (i) senior mortgages and security agreements securing Great Bay's indebtedness to lenders in an aggregate amount not to exceed \$80,000,000 and (ii) other mortgages that may be granted by Great Bay to other purchasers of power from Great Bay to secure a Balance Account or similar obligation. The UNITIL Purchased Power Agreement further provides that UNITIL's Third Mortgage will rank *pari passu* with other mortgages that may be granted by Great Bay to other purchasers of power from Great Bay to secure potential payment of damages or similar obligations. The Company is currently evaluating various options regarding the UNITIL Purchased Power Agreement in order to maximize its value to the Company.

Great Bay and Little Bay are parties to a power sales agreement dated as of November 19, 2001 under which Little Bay sells at cost, and Great Bay purchases, all of the output of the portion of Seabrook owned by Little Bay. This agreement is a unit power sale agreement. Accordingly, when all or part of Little Bay's interest in Seabrook is not producing electricity, the obligation of Little Bay to sell (and of Great Bay to purchase) is proportionately eliminated. The agreement can be terminated at any time by mutual consent of the parties, after any notice required by law.

In February 2001, Great Bay executed a Purchase Power Agreement with Select Energy ("Select") whereby Great Bay sold 50 MWs of energy associated with the Seabrook Project to Select in exchange for 25 MWs of energy associated with Millstone Unit 2 and 25 MWs of energy associated with Millstone Unit 3.

Millstone is a nuclear power plant located in Connecticut. The term of this agreement was April 1, 2001 through December 31, 2001. Delivery of power from either company was contingent on each of the units operating at a certain capacity.

As part of the agreement, Select made a prepayment of \$3.7 million to Great Bay in February 2001 and a second prepayment of \$3.3 million in March 2001. Great Bay compensated Select for the prepayments by (i) paying 12% annual interest for the period from February 6, 2001 through March 31, 2001 and (ii) giving Select a price differential for the power being exchanged until such time as the Select prepayment had been repaid. In order to collateralize the transaction, Great Bay and Little Bay each provided Select with a mortgage lien and security interest in their respective interests in the Seabrook Project. Great Bay repaid Select in 2001 and the mortgage liens and security interests were released as of July 2001. There was no price differential in exchanging power throughout the remaining term of the agreement.

Competition

Great Bay sells its share of Seabrook Project electricity into the wholesale electricity market in the Northeast United States. There are a large number of suppliers to this market and a surplus of capacity, resulting in intense competition. In addition, non-utility wholesale generators of electricity, such as independent power producers ("IPPs"), Qualifying Facilities ("QFs") and EWGs, as well as power marketers and brokers, actively sell electricity in this market.

Great Bay may face increased competition, primarily based on price, from all the foregoing sources in the future. Great Bay believes that it will be able to compete effectively in the wholesale electricity market because of the current low cost of electricity generated by the Seabrook Project in comparison with existing alternative sources.

NEPOOL

Great Bay is a member of the New England Power Pool ("NEPOOL") and is a party to the Restated NEPOOL Agreement (the "NEPOOL Agreement"). NEPOOL is a voluntary association of companies engaged in the electricity business in New England and its membership is open to all investor-owned, municipal and cooperative electric utilities in New England and other companies that transact business in the region's bulk power market. Certain end users of electricity may also become NEPOOL members. The NEPOOL Agreement imposes certain obligations on its participants concerning generating capacity reserves and the right to use major transmission lines.

New England's independent system operator, ISO New England, Inc. ("ISO-NE"), was established in July 1997 and is responsible for maintaining the safety and reliability of the transmission grid and bulk power market within the NEPOOL region. ISO-NE performs these functions under a services contract with NEPOOL. ISO-NE administers a bid-based wholesale market system in New England that is designed to provide a competitive and efficient generation market through an hourly clearing price mechanism. During 2001, ISO-NE has been developing a revised market system, known as Standard Market Design ("SMD"), which will incorporate location-based pricing and congestion management. The SMD is currently scheduled to be implemented in December 2002.

Northeast RTO

In January 2001, in response to Federal Energy Regulatory Commission ("FERC") Order No. 2000, ISO-NE and six companies owning transmission facilities in New England filed a joint petition for a declaratory order to form a Regional Transmission Organization ("RTO") for the NEPOOL control area. The NEPOOL RTO filing proposed the establishment of two entities working in concert: (1) a new independent transmission company, Northeast Independent Transmission Company, LLC ("NE ITC"), and (2) an independent system operator. In July 2001, FERC issued a series of orders that rejected stand-alone RTO proposals filed by ISO-NE, the New York ISO ("NYISO"), and the PJM Interconnection ("PJM") and directed these three northeastern power pools to participate in a mandatory mediation process with the goal of forming a single Northeast RTO ("NE RTO"). The 45-day NE RTO mediation commenced in July

2001 and ran through early September 2001, and resulted in a business plan for developing and implementing the NE RTO. However, in early January 2002, PJM signaled its intent to move away from the NE RTO and instead work to create an RTO with the Midwest ISO. In late January 2002, ISO-NE and NYISO announced their intent to continue evaluating the potential of a NE RTO, which may eventually include Canadian power systems.

Nuclear Power, Energy and Utility Regulation

The Seabrook Project and Great Bay and Little Bay, as part owners of a licensed nuclear facility, are subject to the broad jurisdiction of the NRC, which is empowered to authorize the siting, construction and operation of nuclear reactors after consideration of public health and safety, environmental and antitrust matters. Great Bay and Little Bay have been, and will be, affected to the extent of their proportionate share by the cost of any such requirements made applicable to the Seabrook Project.

Great Bay and Little Bay are also subject to the jurisdiction of the FERC under Parts II and III of the Federal Power Act and, as a result, are required to file with FERC all contracts for the sale of electricity. FERC has the authority to suspend the rates at which Great Bay and Little Bay propose to sell power, to allow such rates to go into effect subject to refund and to modify a proposed or existing rate if FERC determines that such rate is not "just and reasonable." FERC's jurisdiction also includes, among other things, the sale, lease, merger, consolidation or other disposition of facilities, interconnection of certain facilities, account and services and property records.

Because they both are EWG's, Great Bay and Little Bay are not subject to the jurisdiction of the Securities and Exchange Commission ("SEC") under PUHCA. In order to maintain their EWG status, Great Bay and Little Bay must continue to engage exclusively in the business of owning and/or operating all or part of one or more "eligible facilities" and to sell electricity only at wholesale (i.e. not to end users) and activities incidental thereto. An "eligible facility" is a facility used for the generation of electric energy exclusively at wholesale or used for the generation of electric energy and leased to one or more public utility companies. The term "facility" may include a portion of a facility. In the case of Great Bay and Little Bay, their combined 15% joint ownership interest in the Seabrook Project comprises an "eligible facility."

Over the past several years, New Hampshire and a number of other New England states have implemented deregulation of the electric retail utility industry. In addition, NEPOOL restructured to create and maintain open, non-discriminatory, competitive, unbundled wholesale markets for energy, capacity, and ancillary services. The NEPOOL wholesale market commenced operation in May 1999. All of the deregulation initiatives open retail and wholesale electricity markets to competition in the affected states. Great Bay and Little Bay believe they benefit from the deregulation of the electricity industry, however it is not possible to quantify the impact of deregulation on the companies. Further, Great Bay and Little Bay remain wholesale sellers of electricity and have not entered the competitive retail electricity market.

Nuclear Power Issues

Nuclear units in the United States have been subject to widespread criticism and opposition, which has led to construction delays, cost overruns, licensing delays and other difficulties. Various groups have sought to prohibit the completion and operation of nuclear units and the disposal of nuclear waste by litigation, legislation and participation in administrative proceedings. The Seabrook Project was the subject of significant public controversy during its construction and licensing and remains controversial. An increase in public concerns regarding the Seabrook Project or nuclear power in general could adversely affect the operating license of Seabrook Unit 1. While the Company cannot predict the ultimate effect of such controversy, it is possible that it could result in a premature shutdown of the unit.

In the event of a permanent shutdown of any unit, NRC regulations require that the unit be completely decontaminated of any residual radioactivity. While the current owners of the Seabrook Project are accumulating monies in a trust fund to pay decommissioning costs, if these costs exceed the amount of the trust fund, the current owners at such time will be liable for the excess.

Nuclear Related Insurance

In accordance with the Price Anderson Act, the limit of liability for a nuclear-related accident is approximately \$9.5 billion, effective November 18, 1994. The primary layer of insurance for this liability is \$200 million of coverage provided by the commercial insurance market. The secondary coverage is approximately \$9.3 billion, based on the 106 nuclear units (103 operating units and three units that still handle used fuel) in the United States. The secondary layer is based on a retrospective premium assessment of \$88.1 million per nuclear accident per licensed reactor, payable at a rate not exceeding \$10 million per year per reactor. In addition, the retrospective premium is subject to inflation based indexing at five year intervals and, if the sum of all public liability claims and legal costs arising from any nuclear accident exceeds the maximum amount of financial protection available, then each licensee can be assessed an additional 5% (\$4.2 million) of the maximum retrospective assessment. With respect to the Seabrook Project, Great Bay and Little Bay would be obligated to pay their ownership share of any assessment resulting from a nuclear incident at any United States nuclear generating facility. Great Bay and Little Bay estimate their maximum liability per incident currently would be an aggregate amount of approximately \$13.2 million per accident, with a maximum annual assessment of about \$1.5 million per incident, per year.

The Seabrook Participants are subject to retroactive assessments if losses under those policies exceed the accumulated funds available to the insurer. The maximum potential assessments against the Participants with respect to losses arising during the current policy year for the primary property insurance program and the excess property damage policies are approximately \$8.2 million and \$10.2 million, respectively. The Company's combined 15% share is \$1.2 million and \$1.5 million, respectively.

Great Bay and Little Bay also independently purchase business interruption insurance from Nuclear Electric Insurance Limited ("NEIL"). The current policy is in effect from April 1, 2001 until April 1, 2002 and a renewal policy has been signed which will be in effect from April 1, 2002 until April 1, 2003. The policy provides for the payment of a fixed weekly loss amount of \$600,000 in the event of an outage at the Seabrook Project of more than 23 weeks resulting from property damage occurring from a "sudden fortuitous event, which happens by chance, is unexpected and unforeseeable." The maximum amount payable to Great Bay and Little Bay is a total of \$81.1 million. Under the terms of the policy, Great Bay and Little Bay are subject to a potential retrospective premium adjustment of up to approximately \$789,000 should NEIL's board of directors deem that additional funds are necessary to preserve the financial integrity of NEIL. Since NEIL was founded in 1980, there has been no retrospective premium adjustment; however, there can be no assurance that NEIL will not make retrospective adjustments in the future. The liability for this retrospective premium adjustment ceases six years after the end of the policy unless prior demand has been made.

The board and management of NEIL has announced, that in light of the events of September 11, 2001, the current coverage for terrorism will remain available under all the NEIL policies, but with the addition of a provision regarding the maximum recoveries available for multiple terrorism occurrences. The NEIL board approved the following changes to the NEIL policy forms to respond to the increased potential of multiple terrorism losses at insured sites: (1) increase the multiple for the maximum retrospective premium adjustments from five to ten; and (2) provide specifically for the use of NEIL resources for multiple losses resulting from terrorism within one year. Under this provision, all losses occurring within 12 months from the date of the first loss would share a single recovery of \$3.24 billion plus any amounts NEIL recovers from reinsurers or the government, with priority for the property claims over accidental outage claims.

Nuclear Fuel

NAESCO, the Seabrook Project's managing agent, has made, or expects to make, various arrangements for the acquisition of uranium concentrate, the conversion, enrichment, fabrication and utilization of nuclear fuel and the disposition of that fuel after use. Many of these arrangements are pursuant to multi-year contracts with concentrate and service providers. Based on the Seabrook Project's existing contractual arrangements, Great Bay and Little Bay believe that the Seabrook Project has available, or under supply contracts, sufficient nuclear fuel for operations through approximately 2004. Uranium concentrate and conversion, enrichment and

fabrication services currently are available from a variety of sources. The cost of such concentrate and such services varies based upon market forces.

Nuclear Waste Disposal

Costs associated with nuclear plant operations include amounts for nuclear waste disposal, including spent fuel, as well as for the ultimate decommissioning of the plants. The Nuclear Waste Policy Act of 1982 (the "NWP") requires the United States Department of Energy (the "DOE"), subject to various contingencies, to design, license, construct and operate a permanent repository for high level radioactive waste and spent nuclear fuel, which are collectively referred to as "high-level waste."

The joint owners of the Seabrook Project, through their managing agent NAESCO, entered into contracts with the DOE for high-level waste disposal in accordance with the NWP. Under these contracts and the NWP, the DOE was required to take title to and dispose of the Seabrook Project's high-level waste beginning no later than January 31, 1998. The DOE has not met its contractual and statutory requirements under the NWP calling for the DOE to begin accepting spent fuel from the industry by January 1998. The DOE announced that its first high-level waste repository will not be in operation until 2010 at the earliest.

As a result of this delay, many states and nuclear plant operators, including NAESCO, sued the DOE for injunctive relief and monetary damages. Two U.S. Courts of Appeals ordered the DOE to proceed with its high-level waste disposal obligations and ruled that plant operators are entitled to monetary damages from DOE. However, there can be no assurance that the Seabrook Project will collect damages from the DOE because, among other things, NAESCO's case against the DOE is still pending. Until the DOE begins receiving nuclear waste materials in accordance with the NWP and its contracts, nuclear plants such as Seabrook must retain high-level waste on-site or make other storage provisions. In addition, NAESCO has advised the Company that the Seabrook Project has adequate on-site storage capacity for high-level waste until approximately 2008.

In May 2001, the DOE issued a supplement to the 1999 draft Environmental Impact Statement of Yucca Mountain in Nevada, and public hearings on this document were held in mid-2001. On February 14, 2002, the DOE recommended to President Bush that Yucca Mountain in Nevada be developed as the nation's first long-term geologic repository for the disposal of spent nuclear fuel high-level nuclear waste. On February 15, 2002 the President notified Congress that he considers Yucca Mountain qualified for a construction permit application, taking the next in a series of steps required for approving the site as a nuclear materials repository.

The Low-Level Radioactive Waste Policy Act of 1980 requires each state to provide disposal facilities for low-level waste ("LLW") generated within the state, either by constructing and operating facilities or by joining regional compacts with other states to jointly fulfill their responsibilities. However, the Low-Level Radioactive Waste Policy Amendments Act of 1985 permits each state in which a currently operating disposal facility is located (South Carolina, Nevada and Washington) to impose volume limits and a surcharge on shipments of LLW from states that are not members of their regional compact.

The Seabrook Project ships certain LLW to privately owned facilities in South Carolina and Utah. Since 1999, the Project has been shipping LLW to a processing facility in Tennessee where the material is subjected to separation and volume reduction methods to minimize the final volume to be disposed at a burial site. All LLW generated by the Seabrook Project that exceeds the maximum radioactivity level of LLW accepted by these facilities is currently stored on-site at the Seabrook facility. LLW from normal Seabrook Project operations will continue to be generated at a slow rate as a result of aggressive efforts at the Seabrook Project to minimize this material. NAESCO has advised the Company that the Seabrook Project's capacity for on-site storage of LLW is expected to be sufficient to meet the project's storage requirements through 2006.

Decommissioning

NRC licensing requirements and restrictions are also applicable to the decommissioning of nuclear generating units at the end of their service lives, and the NRC has adopted comprehensive regulations

concerning decommissioning planning, timing, funding and environmental review. Changes in NRC requirements or technology can increase estimated decommissioning costs.

Great Bay and Little Bay are responsible for their pro rata share of the decommissioning and cancellation costs for Seabrook. Great Bay pays its share of decommissioning funding on a monthly basis. Little Bay's share of decommissioning costs was prefunded by Montaup, the owner of the 2.9% interest in the Seabrook Project that Little Bay acquired in November 1999. As part of that acquisition, Montaup transferred approximately \$12.4 million into Little Bay's decommissioning account, an irrevocable trust earmarked for Little Bay's share of Seabrook Plant decommissioning expenses.

The Seabrook decommissioning funding schedule is determined by the New Hampshire Nuclear Decommissioning Financing Committee (the "NDFC"). The NDFC reviews the decommissioning funding schedule for the Seabrook Project at least annually and, for good cause, may increase or decrease the amount of the funds or alter the funding schedule.

On November 5, 2001, the NDFC issued a Final Report and Order in proceeding NDFC Docket 2001-1, which established a decommissioning funding schedule in anticipation of the sale of a majority of the ownership interests in Seabrook. The NDFC set an accelerated funding schedule for the years 2002 through 2006. For the years 2007 and beyond, the funding schedule assumes contributions will be made until 2026. The order also established the requirement for a lump sum "top-off" payment at closing. The current estimated cost to decommission the Seabrook Project (based on NDFC Docket 2001-1), is approximately \$555.6 million in 2001 dollars, assuming for decommissioning funding purposes, a remaining 24-year life for the facility and a future cost escalation of 5.25%.

Funds collected by Seabrook for decommissioning are deposited in an external irrevocable trust pending their ultimate use. The earnings on the external trusts also accumulate in the fund balance. The trust funds are restricted for use in paying for the decommissioning of Unit 1. The investments in the trust are available for sale. Great Bay and Little Bay have therefore reported their investment in trust fund assets at market value and any unrealized gains and losses are reflected in equity. There was an unrealized holding gain of approximately \$221,700 as of December 31, 2001.

Although the owners of the Seabrook Project are accumulating funds in an external trust to defray decommissioning costs, these costs could substantially exceed the value of the trust fund, and the owners, including Great Bay and Little Bay, would remain liable for the excess.

In June 1998, the New Hampshire State legislature enacted legislation that provides that in the event of a default by Great Bay on its payments to the decommissioning fund, the other Seabrook joint owners would be obligated to pay their proportional share of such default. As a result of the enactment of this legislation, the NRC staff found that Great Bay complied with the decommissioning funding assurance requirements. In July 1998, the staff of the NRC notified Great Bay of the staff's determination that Great Bay complied with the decommissioning funding assurance requirements under NRC regulations.

In response to the New Hampshire legislation, Great Bay agreed to make accelerated payments to the Seabrook decommissioning fund such that Great Bay will have contributed sufficient funds by the year 2015 to allow sufficient monies to accumulate, with no further payments by Great Bay to the fund, to the full estimated amount of Great Bay's decommissioning obligation by the time the current Seabrook operating license expires in 2026. Based on the currently approved funding schedule and Great Bay's accelerated funding schedule, Great Bay's decommissioning payments will be approximately \$1.4 million in 2002 and escalate at 4% each year thereafter through 2015.

On November 15, 1992, Great Bay's former parent, EUA, and certain other parties entered into a settlement agreement. Under the settlement agreement, EUA guaranteed an amount not to exceed \$10 million of Great Bay's future decommissioning costs of Seabrook Unit 1 in the event that Great Bay is unable to pay its share of such decommissioning costs.

Environmental Regulation

The Seabrook Project, like other electric generating stations, is subject to standards administered by federal, state and local authorities with respect to the siting of facilities and associated environmental factors. The United States Environmental Protection Agency (the "EPA"), and certain state and local authorities, have jurisdiction over releases of pollutants, contaminants and hazardous substances into the environment and have broad authority in connection therewith, including the ability to require installation of pollution control devices and remedial actions. The NRC has promulgated a variety of standards to protect the public from radiological pollution caused by the normal operation of nuclear generating facilities.

The EPA issued a National Pollutant Discharge Elimination System ("NPDES") permit, valid for a period of five years, to NAESCO on October 30, 1993 authorizing discharges from Seabrook Station into the Atlantic Ocean and the Browns River in accordance with limitations, monitoring requirements and conditions specified in the permit. A renewal application was filed in April 1998 and supplemented in August and September of 1998 and in September 1999. The EPA issued a draft NPDES permit in December 2001. The final permit was issued in February 2002. The permit indicates that the Seabrook Project water cooling system represents the best technology available.

On July 26, 1999, the New Hampshire Department of Environmental Services issued a renewal of NAESCO permits to operate two auxiliary boilers, two emergency diesel generators and other smaller units in accordance with New Hampshire Revised Statutes Annotated Chapter 125-C. These permits prescribe limits of the emission of air pollutants into the ambient air as well as record keeping and other reporting criteria. Because the liabilities of the Participants under the JOA are several and not joint, in the event that NAESCO violates the emissions limits contained in its permits, if at all, Great Bay and Little Bay will be liable for their pro rata share of any costs and liabilities assessed for the emissions violations.

In some environmental areas, the NRC and the EPA have overlapping jurisdiction. Thus, in addition to being subject to NRC regulations, the Seabrook Project is subject to all conditions imposed by the EPA and a variety of federal environmental statutes, including obtaining permits for the discharge of pollutants (including heat, which is discharged by the Seabrook Project) into the nation's navigable waters. In addition, the EPA has established standards, and is in the process of reviewing existing standards, for certain toxic air pollutants, including radionuclides, under the United States Clean Air Act which apply to NRC-licensed facilities. The effective date for the new EPA radionuclide standard has been stayed as applied to nuclear generating units. Environmental regulation of the Seabrook Project may result in material increases in capital and operating costs, delays or cancellation of construction of planned improvements, or modification or termination of operation of existing facilities. Management believes that Great Bay and Little Bay are in compliance in all material respects with applicable EPA, NRC and other regulations relating to pollution caused by nuclear generating facilities.

Equity Investment in HoustonStreet

BayCorp owns a 45.9% equity interest in HoustonStreet. HoustonStreet developed and operates HoustonStreet.com, an Internet-based, independent crude oil and refined products trading exchange in the United States.

HoustonStreet's crude oil platform includes several trading floors, organized by grade and location. The platform allows for a user-customized view where the user can specify which markets should appear together on a floor, regardless of grade, location or type. HoustonStreet's refined products platform includes several trading floors, organized by commodity, pipeline and geographic location. Bids and offers are segmented by trading period (month and cycle) and by grade. Commodities traded include numerous grades of gasoline and distillates, specifically jet fuel, number 2 heating oil, low sulfur diesel, regular gas, regular reformulated gas, premium gas and premium reformulated gas.

On March 30, 2001, HoustonStreet raised approximately \$2.9 million in additional funding, including \$450,000 from BayCorp, by selling senior secured notes, warrants to purchase HoustonStreet preferred stock and warrants to purchase HoustonStreet common stock. Collectively, these securities are referred to as the

“HoustonStreet Series C Units.” In April 2001, BayCorp authorized HoustonStreet to convert BayCorp’s \$7 million loan made in 2000, along with approximately \$1 million in accrued interest and penalties on the note and past due management fees, into \$8 million of Series C Units. The loan, accrued interest and receivables from HoustonStreet had been written down to zero as of December 31, 2000 and as such, the conversion of these amounts had no accounting impact on BayCorp.

In 2001, HoustonStreet downsized its organization and shut down its electricity trading platforms, shifting its business focus to its crude oil and refined products trading platforms. In addition, HoustonStreet intends to leverage its open architecture in order to integrate trade information with its customers’ mid- and back-office applications.

Employees and Management

As of March 15, 2002, BayCorp had 11 employees. Its subsidiaries, Great Bay and Little Bay, had no employees. As of March 15, 2002, HoustonStreet had six employees.

BayCorp entered into Management and Administrative Services Agreements (the “Services Agreements”) with Great Bay and HoustonStreet. Under the Services Agreement with Great Bay, BayCorp provides Great Bay with a full range of management services, including general management and administration, accounting and bookkeeping, budgeting and regulatory compliance. Great Bay paid \$1,203,600 to BayCorp for these services in 2001. Under the Services Agreement with HoustonStreet, BayCorp provides HoustonStreet with administrative, accounting and bookkeeping, budgeting and human resource services. HoustonStreet paid \$165,000 to BayCorp in 2001 for these services. Each Services Agreement has a one-year term and provides for automatic one-year renewals.

Item 2. *Properties.*

BayCorp’s principal assets include its 100% equity interests in Great Bay and Little Bay. In turn, Great Bay and Little Bay’s principal asset is a combined 15% joint ownership interest in the Seabrook Project. The Seabrook Project is a nuclear-fueled, steam electricity, generating plant located in Seabrook, New Hampshire, which was planned to have two Westinghouse pressurized water reactors, Seabrook Unit 1 and Seabrook Unit 2 (each with a rated capacity of 1,150 megawatts), utilizing ocean water for condenser cooling purposes. Seabrook Unit 1 entered commercial service on August 19, 1990. Seabrook Unit 2 has been canceled. See “Business — The Seabrook Project.” BayCorp has a 45.9% equity interest in HoustonStreet.

BayCorp’s corporate headquarters is located in Eliot, Maine where it occupies approximately 5,000 square feet of office space. BayCorp’s management believes that the corporate headquarters in Eliot, Maine meets its current requirements and that additional space can be obtained to meet requirements for the foreseeable future.

Item 3. *Legal Proceedings.*

Not Applicable.

Item 4. *Submission of Matters to a Vote of Security Holders.*

Not Applicable.

Executive Officers of the Registrant

The executive officers of BayCorp are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Frank W. Getman Jr.	38	Chairman of the Board, Chief Executive Officer and President
Anthony M. Callendrello	50	Chief Operating Officer and Secretary
Patricia T. Barnard	46	Vice President of Finance and Treasurer

Frank W. Getman Jr. has served as Chief Executive Officer and President of the Company since May 1998. Mr. Getman has served as Chairman of the Board since May 2000 and has served as Chief Operating Officer of the Company from September 1996 to March 2000 and Vice President, Secretary and General Counsel of Great Bay from August 1995 to September 1996. From September 1991 to August 1995, Mr. Getman was an attorney with the law firm of Hale and Dorr LLP, Boston, Massachusetts. Mr. Getman holds J.D. and M.B.A. degrees from Boston College and a B.A. in Political Science from Tufts University.

Anthony M. Callendrello has served as the Company's Chief Operating Officer since April 2000 and as the Secretary of the Company since May 2000. Mr. Callendrello has over 20 years experience in the nuclear industry. With over 16 years at the Seabrook Project, Mr. Callendrello most recently served as the plant's Manager of Environmental, Government and Owner Relations. From 1980 to 1983, Mr. Callendrello was employed with Stone & Webster Engineering Corporation, which provided engineer and architect services to utility and other industries. Mr. Callendrello holds a Master of Engineering — Mechanical degree and a Bachelor of Engineering degree from Stevens Institute of Technology.

Patricia T. Barnard has served as Vice President of Finance and Treasurer of the Company since January 2001. Ms. Barnard served as Director of Accounting since May 1996 and has served as Treasurer since 1998. Ms. Barnard has over 20 years experience in multi-national, corporate accounting and finance. From 1978 until 1993, Ms. Barnard was employed by BTR, Plc., a conglomerate of highly diversified manufacturing companies, most recently as Assistant Controller for Clarostat Mfg. Co. Inc., a vertically integrated electronic manufacturing company located in Plano, TX and Juarez, Mexico. Ms. Barnard holds an M.B.A. and a Masters in Accounting from New Hampshire College. She also holds a B.S. in Business Administration from the University of New Hampshire.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Following are the reported high and low sales prices of BayCorp Common Stock ("MWH") on the American Stock Exchange as reported in the Wall Street Journal daily as traded, for each quarter of 2000 and 2001:

	<u>High</u>	<u>Low</u>
<u>2000</u>		
First Quarter	\$32.25	\$9.81
Second Quarter	23.75	7.13
Third Quarter	12.00	7.00
Fourth Quarter	11.50	5.50
	<u>High</u>	<u>Low</u>
<u>2001</u>		
First Quarter	\$10.00	\$6.25
Second Quarter	11.85	7.80
Third Quarter	9.70	8.25
Fourth Quarter	10.15	8.35

As of March 14, 2002, the Company had 28 holders of record of its Common Stock. The Company believes that as of March 14, 2002, the Company had approximately 979 beneficial holders of its Common Stock. The number of beneficial owners substantially exceeds the number of record holders because many of the Company's stockholders hold their shares in street name.

BayCorp has never paid cash dividends on its common stock. Any future dividends depend on future earnings, BayCorp's financial condition and other factors.

Item 6. Selected Financial Data.**Selected Financial Data**

The following table presents selected financial data of the Company as of and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997. The information below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's financial statements, including the notes thereto, contained elsewhere in this Report.

SELECTED FINANCIAL DATA
(Dollars in Thousands)

	For the Years Ended December 31,				
	2001	2000	1999	1998	1997
Income Statement Data:					
Operating Revenues	\$79,480	\$56,347	\$45,731	\$32,034	\$26,642
Operating Expenses	56,021	67,060	45,626	37,310	36,880
Net Income (Loss)	21,688	(15,669)	(4,740)	(6,769)	(11,215)
Balance Sheet Data:					
Cash, Cash Equivalents & Short Term					
Investments	17,181	14,109	5,930	12,055	19,092
Working Capital	22,636	283	17,707	17,761	23,079
Total Assets	174,272	153,594	157,110	140,358	140,158
Decommissioning Liability	85,523	71,618	79,443	60,274	55,846
Capitalization:					
Common Equity	73,555	51,539	66,246	71,359	78,139
Total Capitalization	73,555	51,539	66,246	71,359	78,139

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**Overview**

BayCorp derives all of its revenue through its energy trading activities and its 100% equity interest in Great Bay and Little Bay. Great Bay and Little Bay are electricity generating companies whose principal asset is a combined 15% joint ownership interest in the Seabrook Nuclear Power Project in Seabrook, New Hampshire.

BayCorp reported net income for the year ended December 31, 2001 and reported net losses for the years ended December 31, 2000, 1999, 1998 and 1997. The net income in 2001 was primarily attributable to increased revenues and the realized gain in 2001 on firm forward energy trading contracts. The 2000 net loss was primarily attributable to the non-cash charge to earnings for unrealized losses on firm forward trading contracts and the costs associated with a Seabrook refueling outage during the final ten weeks of 2000. The 1999 net loss was primarily due to costs associated with the refueling outage during the fall of 1999. The 1998 net loss was primarily due to the costs associated with the unscheduled outages at the Seabrook Project that occurred during the year and to the charge related to the termination of a power marketing agreement between Great Bay and PECO Energy Company. The 1997 net loss was primarily due to costs associated with the scheduled and unscheduled outages at the Seabrook Project that occurred during that year.

The Seabrook Project from time to time experiences both scheduled and unscheduled outages. BayCorp incurs losses during outage periods due to the loss of all revenues from the sale of generation and additional costs associated with the outages as well as continuing operating and maintenance expenses and depreciation. Unscheduled outages or operation of the unit at reduced capacity can occur due to the automatic operation of safety systems following the detection of a malfunction. In addition, it is possible for the unit to be shut down or operated at reduced capacity based on the results of scheduled and unscheduled inspections and routine surveillance by Seabrook Project personnel. It is not possible for BayCorp to predict the frequency or duration

of any future unscheduled outages; however, it is likely that such unscheduled outages will occur. Refueling outages are generally scheduled every 18 months depending upon the Seabrook Project capacity factor and the rate at which the nuclear fuel is consumed. There was no refueling outage in 2001. The Seabrook Project conducted a refueling outage in 2000, which began on October 21, 2000. This refueling outage was scheduled for approximately 30 days, however due to unexpected mechanical problems, the Seabrook Project did not return to full power until February 1, 2001. The next refueling outage is scheduled to begin in May 2002.

The following discussion focuses solely on operating revenues and operating expenses that are presented in a substantially consistent manner for all of the periods presented.

Results of Operations

Operating Revenues

BayCorp's operating revenues for 2001 increased by approximately \$23,100,000, or 41.1%, to \$79,480,000 as compared to \$56,347,000 for 2000. The increase was attributable to several factors. The capacity factor at the Seabrook Project was 85.8% of the rated capacity for the twelve months ended December 31, 2001 as compared to a capacity factor of 85.2% for the twelve months ended December 31, 2000. Operating revenues and capacity factor were adversely impacted in 2000 and 2001 by the scheduled refueling outage at the Seabrook Project that began on October 21, 2000. A return to full power was expected on November 21, 2000. The outage was extended when damage to one of the plant's emergency diesel generators occurred, requiring an extensive repair effort. The Seabrook Project returned to full power on February 1, 2001. The Company purchased a significant amount of power to cover firm contracts, primarily due to this refueling outage, and also purchased power for resale in 2001, thus increasing revenues. Purchased power expenses for the twelve months ended December 31, 2001 were approximately \$27,008,000 as compared to approximately \$13,270,000 for the twelve months ended December 31, 2000 primarily due to increased power purchases. Increases in capacity factor and purchased power increased sales of electricity by approximately 27.6% to 1,854,967,500 kWhs in 2001 as compared to 1,453,263,900 kWhs in 2000.

The Company also realized a higher average selling price in 2001. During the twelve months ended December 31, 2001, the average selling price increased 10.9% to 4.29 cents per kWh as compared to an average selling price of 3.87 cents per kWh for the twelve months ended December 31, 2000.

Great Bay's cost of power (determined by dividing total operating expenses by kWhs sold during the applicable period) decreased 35% to 3.02 cents per kWh in 2001 as compared to 4.61 cents per kWh in 2000. This decrease was primarily the result of increased kWhs sold in 2001 and lower operating expenses due to realized gains on firm forward contracts of approximately \$12,879,000 in 2001 as compared to higher operating expenses in 2000 due to unrealized losses on firm forward contracts of approximately \$12,232,000 in 2000.

BayCorp's operating revenues for 2000 increased by approximately \$10,600,000, or 23.2%, to \$56,347,000 as compared to \$45,731,000 for 1999. This increase was primarily attributable to increases in selling prices in 2000 as compared to 1999. During 2000, the sales price kWh increased 23% to 3.87 cents per kWh as compared with 3.13 cents per kWh in 1999. Sales of electricity decreased slightly by approximately 0.2% to 1,453,263,900 kWhs in 2000 as compared to 1,457,110,270 kWhs in 1999. The 2000 capacity factor at the Seabrook Project was 85.2% of the rated capacity as compared to a capacity factor of 85.6% for 1999. Operating revenues and capacity factor were adversely impacted in 2000 by the scheduled refueling outage at the Seabrook Project that began on October 21, 2000 as mentioned above. Operating revenues and capacity factor were adversely impacted in 1999 by the scheduled refueling outage that began on March 27, 1999. Great Bay purchased approximately 262,409,300 kWhs for resale in 2000 primarily to cover firm contracts during the extended outage in the fourth quarter.

Great Bay's cost of power increased 38% to 4.61 cents per kWh in 2000 as compared to 3.33 cents per kWh in 1999. This increase was primarily the result of the expense associated with the unrealized losses on firm forward contracts of approximately \$12.2 million in 2000 as compared to \$806,000 in 1999.

Expenses

BayCorp's total operating expenses for 2001 decreased approximately \$11,039,000, or 16.5%, in comparison with 2000. This decrease was primarily the result of the non-cash charge to earnings for unrealized gains/losses on firm energy trading contracts. In 2001, the Company realized gains on firm forward energy trading contracts of \$12,879,000 and total operating expenses were reduced by this amount. In 2000, total operating expenses were higher because the Company recorded unrealized losses on firm forward energy trading contracts of \$12,232,000. As of December 31, 2000, the company held numerous firm forward energy trading contracts to deliver power in 2001. The Company had no firm forward energy trading contracts as of December 31, 2001, nor does it expect to in 2002, in light of its expected sale of its ownership interest in the Seabrook Project in late 2002.

Production and transmission costs decreased approximately \$655,000, or 2.5%, from \$26,089,000 in 2000 to \$25,434,000 in 2001. Purchased power expenses increased approximately \$13,738,000, or 103%, from \$13,270,000 in 2000 to \$27,008,000 in 2001. This increase was primarily attributable to the extended duration of the 2000 refueling outage that began on October 21, 2000. A return to full power was expected on November 21, 2000. The outage was extended when damage to one of the plant's emergency diesel generators occurred, requiring an extensive repair effort. The Seabrook Project returned to full power on February 1, 2001. In order to cover some of its firm energy contracts and to secure cash to cover some of its operating costs in the first half of 2001, Great Bay executed a Purchase Power Agreement with Select in February 2001 whereby Great Bay sold 50 MWs of energy associated with Seabrook to Select in exchange for 25 MWs of energy associated with Millstone Unit 2 and 25 MWs of energy associated with Millstone Unit 3. The term of this agreement was April 1, 2001 through December 31, 2001. See "Business — Purchased Power Agreements."

Administrative and general expenses increased approximately \$1,839,000, or 25%, from \$7,372,000 in 2000 to \$9,211,000 in 2001. This increase was primarily attributable to costs associated with employee turnover and retirements at the Seabrook Project in 2001 and a bad debt expense of \$1,100,000 to establish a reserve for bad debts specific to Enron. See "Recent Developments." There was no similar charge in 2000.

Depreciation and amortization charges decreased approximately \$429,000, or 10.3%, from \$4,159,000 in 2000 to \$3,730,000 in 2001. This decrease was primarily due to a reduction in fixed asset values. Taxes other than income decreased \$422,000, or 10.7%, from \$3,938,000 in 2000 to \$3,516,000 in 2001. This decrease was due to the continued reduction in Seabrook property taxes resulting from prior year negotiations between the management of the Seabrook Project and the towns of Seabrook, Hampton and Hampton Falls, New Hampshire to reduce the assessed value of the Seabrook Project.

Interest and dividend income decreased approximately \$642,000, or 55.2%, from \$1,162,000 in 2000 to \$520,000 in 2001, primarily due to lower average monthly cash balances and lower interest rates in 2001 as compared 2000. Although the Company's cash balance at December 31, 2001 of \$17,181,000 was approximately 55% greater than its cash balance at December 31, 2000, the Company's cash balance during the first half of 2001 was adversely affected by the late 2000 and early 2001 outage and was favorably affected by strong operations at Seabrook during the second half of 2001.

Decommissioning cost accretion decreased \$372,000, or 10.2%, to \$3,261,000 in 2001 as compared to \$3,633,000 in 2000. This accretion is a non-cash charge that reflects Great Bay's liability related to the closure and decommissioning of the Seabrook Project in current year dollars over the licensing period during which the Seabrook Project is licensed to operate. Decommissioning trust fund income decreased \$127,000, or 7.4%, to \$1,599,000 in 2001 as compared to \$1,726,000 in 2000. The decrease in interest earned on the decommissioning trust fund reflected the lower rates of returns on investments.

Equity loss in BayCorp's HoustonStreet investment was \$4,352,000 in 2000 as compared to \$450,000 in 2001. As of December 31, 1999, the Company owned 100% of HoustonStreet. The Company recognized its ownership share of HoustonStreet's losses, \$3,396,000, for 1999. HoustonStreet raised additional equity in 2000 from outside investors and as a result, as of December 4, 2000, the Company's ownership fell below 50%, to 45.9%. Subsequently, the Company deconsolidated HoustonStreet as of December 4, 2000 and started

accounting for this investment on the equity method. The net financial impact of this deconsolidation was \$4,352,000, recorded in 2000. BayCorp invested \$450,000 in HoustonStreet in 2001 and recorded as an equity loss in investment.

Other income (deductions) decreased approximately \$932,000, to a net deduction in 2001 of \$179,000 as compared to other income in 2000 of \$753,000. This decrease in other income is primarily due to lower administrative fees charged to HoustonStreet in 2001 as compared to 2000 and fewer sales of miscellaneous Unit 2 equipment at Seabrook in 2001 as compared to 2000.

BayCorp's total operating expenses for 2000 increased \$21.4 million, or 47%, in comparison with 1999. This increase was primarily the result of the non-cash charge to earnings for unrealized losses on firm energy trading contracts. Unrealized losses for firm energy trading contracts were \$12,232,000 for 2000 as compared to \$806,000 for 1999. Production costs increased approximately \$6,800,000, or 37.3%, from \$18,220,000 in 1999 to \$25,016,000 in 2000. This increase was primarily the result of the Company's increased ownership in the Seabrook Project, from approximately 12.1% for the first eleven months of 1999 to approximately 15% for December 1999 and all of 2000. In addition, the increase in operating expenses in 2000 as compared to 1999 was attributable to the costs associated with the extended refueling outage in the fourth quarter of 2000. Purchased power expenses increased approximately \$1,000,000, or 8.5%, from \$12,232,000 in 1999 to \$13,270,000 in 2000. This increase was primarily attributable to an increase in the purchase price of power in 2000 as compared to 1999.

Administrative and general expenses increased approximately \$666,000, or 9.9%, from \$6,706,000 in 1999 to \$7,372,000 in 2000. Depreciation and amortization increased approximately \$336,000, or 8.8%, from \$3,823,000 in 1999 to \$4,159,000 in 2000. These increases were primarily attributable to the increased ownership in the Seabrook Project in 2000 as compared to 1999. Taxes other than income increased approximately \$972,000, or 32.8%, from \$2,966,000 in 1999 to \$3,938,000 in 2000. In addition to expenses increasing as a result of the Company's increased ownership in the Seabrook Project, Great Bay also received a property tax refund in 1999 as settlement for changes in assessed property values.

Interest and dividend income increased approximately \$514,000, or 79.3%, from \$648,000 in 1999 to \$1,162,000 in 2000, primarily due to higher average cash balances during 2000 as compared to 1999. Decommissioning cost accretion increased \$313,000, or 9.4%, to \$3,633,000 in 2000 as compared to \$3,320,000 in 1999. Decommissioning trust fund income increased \$971,000, or 128%, to \$1,726,000 in 2000 as compared to \$755,000 in 1999. The increase in interest earned on the decommissioning trust fund reflected the higher 2000 fund balances as Great Bay continued to make contributions to the Great Bay decommissioning trust fund and the addition of the Little Bay decommissioning trust funds in 2000. Other Income increased approximately \$443,000, or 143%, to \$753,000 in 2000 as compared to \$310,000 in 1999, primarily due to miscellaneous sales of Unit 2 equipment at Seabrook.

Equity loss in HoustonStreet investment was \$4,352,000 in 2000 and \$3,396,000 in 1999. As of December 31, 1999, the Company owned 100% of HoustonStreet. The Company recognized its ownership share of HoustonStreet's losses, \$3,396,000, for 1999. HoustonStreet raised additional equity in 2000 from outside investors and as a result, as of December 4, 2000, the Company's ownership fell below 50%, to 45.9%. Subsequently, the Company deconsolidated HoustonStreet as of December 4, 2000 and started accounting for this investment on the equity method. The net financial impact of this deconsolidation was \$4,352,000, recorded in 2000.

Net Operating Losses

For federal income tax purposes, as of December 31, 2001, the Company had net operating loss carry forwards ("NOLs") of approximately \$208 million, which are scheduled to expire between 2004 and 2019. Because the Company has experienced one or more ownership changes, within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, an annual limitation is imposed on the ability of the Company to use \$115 million of these carryforwards. The Company's best estimate at this time is that the annual limitation on the use of \$115 million of the Company's NOLs is approximately \$5.5 million per year. Any unused portion of the \$5.5 million annual limitation applicable to the Company's restricted NOL's is

available for use in future years until such NOL's are scheduled to expire. The Company's other \$93 million of NOLs are not currently subject to such limitations.

Liquidity and Capital Resources

BayCorp's subsidiary, Great Bay, currently sells most of its power in the Northeast United States short-term wholesale power market. The cash generated from electricity sales by Great Bay was sufficient to meet the Company's ongoing cash requirements in 2001. If the Seabrook Project operates at a capacity factor below historical levels, or if expenses associated with the ownership or operation of the Seabrook Project, including without limitation decommissioning costs, are materially higher than anticipated, or if the prices at which Great Bay is able to sell its share of the Seabrook Project electricity decrease from current price levels, BayCorp or Great Bay would be required to raise additional capital, either through a debt financing or an equity financing, to meet ongoing cash requirements. Nonetheless, there can be no assurance that BayCorp or Great Bay will be able to raise additional capital on acceptable terms or at all.

On January 4, 2002, BayCorp reported that Great Bay received notice on December 21, 2001 from Enron that Enron was terminating its contracts with Great Bay. Enron owes Great Bay \$1,075,200 for power delivered prior to Enron's Chapter 11 bankruptcy filing on December 2, 2001. Great Bay also had an administrative claim against Enron of \$684,100 for power delivered between December 2, 2001 and December 21, 2001 and an unliquidated claim for damages resulting from the termination of the contracts. Enron paid \$684,100 to Great Bay on February 21, 2002. During the fourth quarter of 2001, BayCorp recorded an expense of \$1,100,000 to establish a reserve for doubtful accounts due to the uncertainty of collecting remaining amounts owed by Enron to Great Bay for power delivered prior to Enron's Chapter 11 bankruptcy filing.

On February 6, 2001, Great Bay executed a Purchase Power Agreement with Select whereby Great Bay sold 50 MWs of energy associated with Seabrook to Select in exchange for 25 MWs of energy associated with Millstone Unit 2 and 25 MWs of energy associated with Millstone Unit 3. The term of this agreement was April 1, 2001 through December 31, 2001. Delivery of power from either company was contingent on each of the units operating at certain capacity.

As part of the agreement, Select made a prepayment of \$3.7 million to Great Bay in February 2001 and a second prepayment of \$3.3 million in March 2001. Great Bay compensated Select for the prepayments by (i) paying 12% annual interest for the period from February 6, 2001 through March 31, 2001 and (ii) giving Select a price differential for the power being exchanged until such time as the Select prepayment has been repaid. In order to collateralize the transaction, Great Bay and Little Bay each provided Select with a mortgage lien and security interest in their respective interests in the Seabrook Project. Great Bay repaid Select in 2001 and the mortgage liens and security interests were released as of July 2001. There was no price differential in exchanging power throughout the remaining term of the agreement.

The Company's principal asset available to serve as collateral for borrowings is Great Bay's and Little Bay's combined 15% interest in the Seabrook Project. Pursuant to a purchased power agreement, dated as of April 1, 1993, between Great Bay and UNITIL, Great Bay's interest in the Seabrook Project is encumbered by a mortgage. This mortgage is subject and subordinate to up to \$80 million of senior secured financing and certain other mortgages.

BayCorp's total cash and short-term investments increased approximately \$3,100,000 during 2001. The principal factor affecting liquidity during 2001 was the Company's net income of \$21,688,000 reduced by the non-cash credit to income, realized gain on forward firm energy trading contracts, of approximately \$12,879,000. Other non-cash charges to income included \$3,272,000 for depreciation and amortization, \$4,140,000 for nuclear fuel amortization and \$3,261,000 for decommissioning cost accretion. In addition, there was an increase in miscellaneous liabilities of approximately \$4,216,000 primarily due to the monthly accrual for outage costs estimated for the May 2002 refueling outage. Offsetting these non-cash charges to income were cash charges including approximately \$1,284,000 for decommissioning interest. There was an approximate \$3,160,000 increase in accounts receivable. This increase was primarily due to higher sales in December 2001 as compared to December 2000 when there was a refueling outage at the Seabrook Project. In addition, there was an approximate \$6,580,000 decrease in accounts payable primarily due to higher accounts payable

for purchased power in December 2000 as compared to December 2001. Other cash charges included approximately \$1,788,000 for capital expenditures and \$5,017,000 for nuclear fuel.

Great Bay's 2001 decommissioning payments totaled approximately \$2,617,000. The decommissioning funding schedule is determined by the NDFC, which reviews the schedule for the Seabrook Project at least annually. Great Bay expects to use revenues from the sale of power to make decommissioning payments. See "Business — Decommissioning."

BayCorp received approximately \$423,000 in 2001 from the exercise of options to purchase 67,000 shares of BayCorp common stock by former employees of the Company. Also in 2001, BayCorp invested \$450,000 in cash in HoustonStreet. This amount was recorded as an equity loss in HoustonStreet for 2001 and net income for 2001 was reduced by \$450,000.

Great Bay anticipates that its share of the Seabrook Project's capital expenditures for the 2002 fiscal year will total approximately \$5.3 million for nuclear fuel and various capital projects. In addition, Great Bay is required under the JOA to pay its share of Seabrook Unit 1 and Seabrook Unit 2 expenses, including, without limitation, operation and maintenance expenses, construction and nuclear fuel expenditures and decommissioning costs, regardless of the level of Seabrook Unit 1's operations.

In October 2000, the Company announced that it reached an agreement with Northeast Utilities ("NU") under which the Company's generating subsidiaries, Great Bay and Little Bay, will include their aggregate 15% ownership share of the Seabrook Project in the current auction of NU's subsidiaries' shares of the Seabrook Project. Under the terms of the agreement, BayCorp will receive the sales price established by the auction process. In the event that the sale yields proceeds for BayCorp of more than \$87.2 million, BayCorp and NU will share the excess proceeds. Should BayCorp's sales proceeds be less than \$87.2 million, NU will make up the difference below that amount on a dollar for dollar basis up to a maximum of \$17.4 million. Under the agreement, BayCorp will be paid separately for nuclear fuel and inventory. The agreement also limits any top-off amount required to be funded by BayCorp for decommissioning as part of the sale process at the amount required by the Nuclear Regulatory Commission ("NRC") regulations. The auction began in the last quarter of 2001 with a closing expected in the last quarter of 2002.

Certain Factors That May Affect Future Results

This Annual Report contains forward-looking statements. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of BayCorp and/or its subsidiaries to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth below and elsewhere in this report.

History of Losses. BayCorp reported operating income for 2001. Prior to 2001, BayCorp had never reported an operating profit for any year since its incorporation. Until 2001, electricity sales at short-term rates have not resulted in sufficient revenue to enable BayCorp to meet its cash requirements for operations, maintenance and capital related costs. In addition, and despite recently increasing prices for electricity in the northeast United States, there can be no assurance that Great Bay or Little Bay will be able to sell power at prices that will enable them to meet their cash requirements.

Liquidity Need. As of December 31, 2001, BayCorp had approximately \$17,100,000 in cash and cash equivalents, restricted cash and short-term investments. The Company believes that such cash, together with the anticipated proceeds from the sale of electricity by Great Bay and Little Bay, will be sufficient to enable the Company and its wholly owned subsidiaries to meet their cash requirements in 2002. However, if in 2002, the Seabrook Project operates at a capacity factor below historical levels, or if expenses associated with the ownership or operation of the Seabrook Project, including without limitation decommissioning costs, costs associated with the May 2002 scheduled refueling outage and costs associated with the sale of the Seabrook Project, are materially higher than anticipated, or if the prices at which Great Bay and Little Bay are able to

sell their share of the Seabrook Project electricity decrease from current price levels, the Company or its wholly-owned subsidiaries would be required to raise additional capital, either through a debt financing or an equity financing, to meet ongoing cash requirements. In that event, the Company and its wholly owned subsidiaries would likely need to raise additional capital from outside sources. There is no assurance that the Company or its subsidiaries would be able to raise such capital or that the terms on which any additional capital is available would be acceptable. If additional funds are raised by issuing equity securities, dilution to then existing stockholders will result.

Primary Reliance on a Single Asset. BayCorp's principal source of revenue is its wholesale electricity generation and trading business, which depends in large part on Great Bay and Little Bay's 15% combined joint interest in the Seabrook Nuclear Power Project in Seabrook, New Hampshire. Accordingly, BayCorp's results of operations significantly depend on the successful and continued operation of the Seabrook Project. In particular, if the Seabrook Project experiences unscheduled outages of significant duration, BayCorp's results of operations will be materially adversely affected.

Risks Associated with Agreement to Sell Seabrook Ownership Interests. On October 10, 2000, the Company, Great Bay and Little Bay entered into an agreement with Northeast Utilities ("NU") under which Great Bay and Little Bay will join with NU in the sale of NU's ownership interests in the Seabrook Project. Under the terms of the agreement, BayCorp will receive the sales price established by an auction process led by NU. Although the auction process began in the last quarter of 2001 with a closing expected in the last quarter of 2002, the Company cannot control the procedure or timing of the joint sale of the Seabrook Project, and the sale may be delayed, abandoned or otherwise affected by factors beyond the Company's control. Significantly, the price obtained by Great Bay and Little Bay in the sale of their Seabrook interests cannot be predicted. Further, the value of the fuel and inventory owned by Great Bay and Little Bay, currently estimated at between \$10 million to \$14 million, may be materially different than estimated.

Changes in the New England Wholesale Power Market. During recent years in New England, the combination of (1) small increases in the demand for electricity and (2) electric industry deregulation has resulted in increased uncertainty regarding the price of electricity in the wholesale power market. Although Great Bay's average selling price per kWh (determined by dividing total sales revenue by the total number of kWhs sold in the applicable period) increased from 3.13 cents in 1999 to 3.87 cents in 2000 and to 4.29 cents in 2001, there can be no assurance that Great Bay or Little Bay will be able to sell their power at these prices or higher prices in the future.

Risks in Connection with Joint Ownership of Seabrook Project. Great Bay and Little Bay are required under the JOA to pay their share of Seabrook Unit 1 and Seabrook Unit 2 expenses, including without limitation operations and maintenance expenses, construction and nuclear fuel expenditures and decommissioning costs, regardless of Seabrook Unit 1's operations. Under certain circumstances, a failure by Great Bay or Little Bay to make their monthly payments under the JOA entitles certain other joint owners of the Seabrook Project to purchase Great Bay or Little Bay's interest in the Seabrook Project for 75% of the then fair market value thereof.

In addition, the failure to make monthly payments under the JOA by owners of the Seabrook Project other than Great Bay and Little Bay may have a material adverse effect on the Company. For example, Great Bay or Little Bay could opt to pay a greater proportion of the Seabrook Project expenses in order to preserve the value of their share of the Seabrook Project. In the past, certain of the owners of the Seabrook Project other than Great Bay and Little Bay have not made their full respective payments. The electric utility industry is undergoing significant changes as competition and deregulation are introduced into the marketplace. If a Participant other than Great Bay or Little Bay filed for bankruptcy and that Participant was unable to pay its share of Seabrook Project expenses, Great Bay or Little Bay might opt to pay a greater portion of Seabrook Project expenses in order to preserve the value of their share of the Seabrook Project. In the past, the filing of bankruptcy by a Participant has not resulted in a failure to pay Seabrook Project expenses or an increase in the percentage of expenses paid by other Participants.

The Seabrook Project is owned by Great Bay, Little Bay and the other owners thereof as tenants in common, with the various owners holding varying ownership shares. This means that Great Bay and Little

Bay, which together own only a 15% interest, do not have control of the management of the Seabrook Project. As a result, decisions may be made affecting the Seabrook Project notwithstanding Great Bay and/or Little Bay's opposition.

Certain costs and expenses of operating the Seabrook Project or owning an interest therein, such as certain insurance and decommissioning costs, are subject to increase or retroactive adjustment based on factors beyond the control of BayCorp or its subsidiaries. The cost of disposing of Unit 2 of the Seabrook Project is not known at this time. These various costs and expenses may adversely affect BayCorp, Great Bay and Little Bay, possibly materially.

Extensive Government Regulation. The Seabrook Project is subject to extensive regulation by federal and state agencies. In particular, the Seabrook Project, and Great Bay and Little Bay as part owners of a licensed nuclear facility, are subject to the broad jurisdiction of the NRC, which is empowered to authorize the siting, construction and operation of nuclear reactors after consideration of public health and safety, environmental and antitrust matters. Great Bay and Little Bay are also subject to the jurisdiction of the FERC and, as a result, are required to file with FERC all contracts for the sale of electricity. FERC's jurisdiction also includes, among other things, the sale, lease, merger, consolidation or other disposition of facilities, interconnection of certain facilities, accounts, service and property records. Noncompliance with NRC requirements may result, among other things, in a shutdown of the Seabrook Project.

The NRC has promulgated a broad range of regulations affecting all aspects of the design, construction and operation of a nuclear facility, such as the Seabrook Project, including performance of nuclear safety systems, fire protection, emergency response planning and notification systems, insurance and quality assurance. The NRC retains authority to modify, suspend or withdraw operating licenses, such as the license pursuant to which the Seabrook project operates, at any time that conditions warrant. For example, the NRC might order Seabrook Unit 1 shut down (i) if flaws were discovered in the construction or operation of Seabrook Unit 1, (ii) if problems developed with respect to other nuclear generating plants of a design and construction similar to Unit 1, (iii) if accidents at other nuclear facilities suggested that nuclear generating plants generally were less safe than previously believed or (iv) if security measures activated immediately after the attacks of September 11, 2001, or as a result of the NRC's safety order on February 25, 2002, were deemed insufficient or inadequate.

Risk of Nuclear Accident. Nuclear reactors have been used to generate electric power for more than 35 years and there are currently 103 nuclear reactors operating for electric power generation in the United States. Although the safety record of these nuclear reactors in the United States generally has been very good, accidents and other unforeseen problems have occurred both in the United States and elsewhere, including the well-publicized incidents at Three Mile Island in Pennsylvania and Chernobyl in the former Soviet Union. The consequences of such an accident can be severe, including loss of life and property damage, and the available insurance coverage may not be sufficient to pay all the damages incurred.

Risk of Terrorist Attack. With continued uncertainty about the possibility of additional terrorist activities in the United States, the Nation's nuclear power plants, including the Seabrook Project, remain at a high level of security. On February 25, 2002, the NRC issued an order to all nuclear plant licensees, requiring them to take certain additional interim compensatory measures to address the generalized high-level threat environment. These additional compensatory requirements will provide the NRC with reasonable assurance that public health and safety and the common defense and security continue to be adequately protected in the current generalized high-level threat environment. These requirements will remain in effect pending notification from the NRC that a significant change in the threat environment occurs, or until the NRC determines that other changes are needed following a more comprehensive reevaluation of current safeguards and security programs. Compliance with these requirements will result in additional incremental operating and capital costs. Should additional security measures be required by the NRC, additional operating or capital costs could be incurred at the Seabrook Project. These costs could be substantial. The consequences of a terrorist attack could be severe, including loss of life and property damage, and the available insurance coverage may not be sufficient to pay all the damages incurred.

Waste Disposal; Decommissioning Cost. There has been considerable public concern and regulatory attention focused upon the disposal of low- and high-level nuclear wastes produced at nuclear facilities and the ultimate decommissioning of such facilities. As to waste disposal concerns, both the federal government and the State of New Hampshire are currently delinquent in the performance of their statutory obligations.

The joint owners of the Seabrook Project, through their managing agent NAESCO, entered into contracts with the DOE for high-level waste disposal in accordance with the NHPA. Under these contracts and the NHPA, the DOE was required to take title to and dispose of the Seabrook Project's high-level waste beginning no later than January 31, 1998. The DOE has not met its contractual and statutory requirements under the NHPA calling for the DOE to begin accepting spent fuel from the industry by January 1998. The DOE announced that its first high-level waste repository would not be in operation until 2010 at the earliest.

The Seabrook Project increased its on-site storage capacity for low-level waste ("LLW") in 1996 and that capacity is expected to be sufficient to meet the Project's storage requirements through 2006. In addition, the managing agent of the Seabrook Project has advised the Joint Owners that the Seabrook Project has adequate on-site storage capacity for high-level waste until approximately 2008. If the Seabrook Project were unable to store nuclear waste on site or make other disposal provisions, the Company's business, results of operations and financial condition would be materially and adversely affected. See "Business — Nuclear Waste Disposal."

As to decommissioning, NRC regulations require that upon permanent shutdown of a nuclear facility, appropriate arrangements for full decontamination and decommissioning of the facility be made. These regulations require that during the operation of a facility, the owners of the facility must set aside sufficient funds to defray decommissioning costs. While the owners of the Seabrook Project are accumulating monies in a trust fund to defray decommissioning costs, these costs could substantially exceed the value of the trust fund, and the owners (including Great Bay and Little Bay) would remain liable for the excess. Moreover, the amount that is required to be deposited in the trust fund is subject to periodic review and adjustment by an independent commission of the State of New Hampshire, which could result in material increases in such amounts.

Risks Related to HoustonStreet. HoustonStreet's revenues depend on continued and expanded use of Internet-based wholesale energy trading platforms. Electronic trading of wholesale energy is new and evolving, and thus may not achieve widespread market acceptance or emerge as a sustainable business. In addition, HoustonStreet will need to enhance trading liquidity in order to increase and sustain revenues. As a technology dependent business, HoustonStreet's business could suffer due to computer or communications systems interruptions or failures, technological change or adverse competitive developments. Further, as electronic commerce evolves, federal, state and foreign agencies could adopt regulations covering issues such as user privacy, content and taxation of products and services. If enacted, government regulations could materially adversely affect HoustonStreet's business. Although HoustonStreet currently is not aware that it infringes any other patents, it is possible that HoustonStreet's technology infringes patents held by third parties. If HoustonStreet were to be found infringing, the owner of the patent could sue HoustonStreet for damages, prevent HoustonStreet from making, selling or using the owner's patented technology or could impose substantial royalty fees for those privileges. If any of the foregoing risks materialize, or other risks develop that adversely affect HoustonStreet, or if HoustonStreet fails to grow its revenues and net income, BayCorp could lose all of the value of its investment in HoustonStreet.

Critical Accounting Policies

Preparation of the Company's financial statements in accordance with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities and revenues and expenses. Note 1 to the Consolidated Financial Statements is a summary of the significant accounting policies used in the preparation of the Company's financial statements. The following is a discussion of the most critical accounting policies used by the Company.

Decommissioning

Based on the Financial Accounting Standards Board's ("FASB") tentative conclusions, reflected on the February 7, 1996, Exposure Draft titled "Accounting for Certain Liabilities Related to Closure and Removal of Long-Lived Assets" Great Bay and Little Bay have recognized as a liability their proportionate share of the present value of the estimated cost of Seabrook Project decommissioning. For Great Bay, the initial recognition of this liability was capitalized as part of the Fair Value of the Utility Plant at November 23, 1994. For Little Bay, the amount was provided for in the purchase price allocation.

New Hampshire enacted a law in 1981 requiring the creation of a state-managed fund to finance decommissioning of any nuclear units in the state. The Seabrook Project's decommissioning estimate and funding schedule is subject to review each year by the New Hampshire Nuclear Decommissioning Financing Committee ("NDFC"). This estimate is based on a number of assumptions. Changes in assumptions for such things as labor and material costs, technology, inflation and timing of decommissioning could cause these estimates to change, possibly materially, in the near term. During November 2001, the NDFC issued an order which established a decommissioning funding schedule in anticipation of the sale of a majority of the ownership interests in Seabrook. The NDFC set an accelerated funding schedule for the years 2002 through 2006. For the years 2007 and beyond, the funding schedule assumes contributions will be made until 2026. The order also established the requirement for a lump sum "top-off" payment at closing. The current estimated cost to decommission the Seabrook Project (based on NDFC Docket 2001-1) is approximately \$555.6 million in 2001 dollars, assuming for decommissioning funding purposes, a remaining 24-year life for the facility and a future cost escalation of 5.25%.

Great Bay and Little Bay, based on the initial exposure draft, have been recognizing a liability based on the present value of the estimated future cash outflows required to satisfy their obligations using a risk free rate. As of December 31, 2001, the estimated undiscounted cash outflows for Great Bay and Little Bay, for decommissioning, based on the November 2001 NDFC study, with decommissioning expenditures starting in 2024 and being completed in 2046, was \$418.3 million, which discounted at an average rate of 4.75%, over the funding period, to December 31, 2001, represented a liability of \$85.5 million reflected in the accompanying balance sheet. As of December 31, 2000, and based on the prior NDFC study, the estimated undiscounted cash outflows for Great Bay and Little Bay, for decommissioning expenditures, starting in 2013 and being completed in 2042 was \$217.2 million, which discounted at an average rate of 4.75%, over the funding schedule to December 31, 2000 represented a liability of \$71.6 million reflected in the accompanying consolidated balance sheet. In accordance with the original exposure draft, the company's wholly-owned subsidiaries record any adjustments to the decommissioning liability due to changes in estimates in the utility plant account.

Great Bay and Little Bay accrete their share of the Seabrook Project's decommissioning liability. This accretion is a non-cash charge and recognizes their liability related to the closure and decommissioning of their nuclear plant in current year dollars over the licensing period of the plant. The non-cash accretion charge recorded in the accompanied consolidated statements of income was \$3,261,000, \$3,633,000 and \$3,329,000 for the years ended December 31, 2001, 2000 and 1999. The change in the accretion between years reflects adjustments to the estimated decommissioning by the NDFC.

Funds collected by Seabrook for decommissioning are deposited in an external irrevocable trust pending their ultimate use. The earnings on the external trusts also accumulate in the fund balance. The trust funds are restricted for use in paying the decommissioning of Unit 1. The investments in the trust are available for sale. Great Bay and Little Bay have therefore reported their investment in trust fund assets at market value and any unrealized gains and losses are reflected in equity. There was an unrealized holding gain of \$221,700 and \$338,100 as of December 31, 2001 and 2000.

Although the owners of Seabrook are accumulating funds in an external trust to defray decommissioning costs, these costs could substantially exceed the value of the trust fund, and the owners, including Great Bay and Little Bay, would remain liable for the excess.

On November 15, 1992, Great Bay, the Bondholder's Committee and the Predecessor's former parent, Eastern Utilities ("EUA") entered into a settlement agreement that resolved certain proceedings against EUA brought by the Bondholder's Committee. Under the settlement agreement EUA reaffirmed its guarantee of up to \$10 million of Great Bay's future decommissioning costs of Seabrook Unit 1.

Seabrook Outage Costs

The Company's operating results and the comparability of these results on an interim and annual basis are directly impacted by the operations of the Seabrook Project, including the cyclical refueling outages (generally 18 months apart) as well as unscheduled outages. During outage periods at the Seabrook Project, Great Bay and Little Bay have no electricity for resale from the Seabrook Project and consequently no related revenues. Therefore the impact of outages on the Company's and Great Bay's and Little Bay's results of operations and financial position are materially adverse.

Great Bay and Little Bay accrue for the incremental costs of the Seabrook Project's scheduled outages over the periods between those outages. However, Great Bay and Little Bay continue to expense the normal Seabrook operating and maintenance expenses as incurred. Therefore, the Company will incur losses during scheduled outage periods as a result of the combination of the lack of revenue and the recognition of normal recurring operation and maintenance costs as well as the continuing depreciation of the utility plant. At the Seabrook Project, a scheduled refueling outage began on October 21, 2000. Seabrook resumed full operating capacity on February 1, 2001. Seabrook Project management have scheduled the next outage to begin in May 2002. The 2002 outage has an estimated incremental operations and maintenance cost of \$32 million. The Company's share is approximately \$4.8 million. The estimate is based on a number of assumptions. Changes in assumptions for such things as labor and contractor costs, required repairs and days to perform the outage and plant operations in the interim, could cause this estimate to change.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and all its subsidiaries. The Company consolidates all majority-owned and controlled subsidiaries and applies the equity method of accounting for investments between 20% and 50%. All significant intercompany transactions have been eliminated. At December 31, 1999, BayCorp owned 100% of HoustonStreet. As of December 31, 2000 and as of December 31, 2001, the Company owned 45.9% of HoustonStreet. Therefore, during 2000, the Company deconsolidated HoustonStreet. At December 31, 2000 and December 31, 2001, the Company accounts for this investment on the equity method and is presenting the 1999 financial statement on a comparative basis (see Note 12.) The Company has an agreement with HoustonStreet under which it is providing certain accounting and administrative services to HoustonStreet for the periods April 1999 to December 2001 and for the calendar year 2002. Income related to such services was \$165,000 for the period ending December 31, 2001.

Energy Marketing

The Company utilized unit contingent and firm forward sales contracts to maximize the value of its 174 MW power supply from the Seabrook Project. The Company had not entered into any forward firm energy trading contracts as of December 31, 2001, nor does it expect to in 2002, in light of its expected sale of its ownership interest in the Seabrook Project in 2002. As a result, as of December 31, 2001, the Company had no unrealized loss or gain on the mark-to-market of forward firm energy trading contracts recorded in accrued expenses. The net change in unrealized gain on trading activities for the year ended December 31, 2001 was \$12,879,000 and is included in the accompanying consolidated statement of income for 2001. As of December 31, 2000, the Company had a net unrealized loss of approximately \$12,879,427 recorded in accrued expenses. The net change in unrealized loss on trading activities for the year ended December 31, 2000 was \$12,232,000 and is included in the accompanying consolidated statement of income for 2000.

Recent Accounting Pronouncements

Asset Retirement Obligations: The Staff of the Securities and Exchange Commission ("SEC") has questioned certain of the current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations and joint owners in the financial statements of these entities. In response to these questions, the FASB agreed to review the accounting for nuclear decommissioning costs. On February 17, 2000 the FASB issued a "Revision of Exposure Draft issued February 7, 1996, Proposed Statement of Financial Accounting Standards: Accounting for Obligations Associated with the Retirement of Long-Lived Assets." On June 30, 2000, the respective proposed statement was issued by the FASB. In August 2001, the FASB approved the issuance of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Retirement Obligations." SFAS No. 143 provides accounting requirements for the recognition and measurement of liabilities associated with the retirement of long-lived assets and requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Great Bay's and Little Bay's accounting for decommissioning is based on the FASB's original tentative conclusions. The new statement requires that an obligation associated with the retirement of a tangible long-lived asset be recognized as a liability when incurred, and that the amount of the liability resulting from (a) the passage of time and (b) revisions to either the timing or amount of estimated cash flows should also be recognized. The new statement also requires that, upon initial recognition of a liability for an asset retirement obligation, an entity capitalize that cost by recognizing an increase in the carrying amount of the related long-lived asset.

The new statement requires the initial measurement of the liability to be based on fair value, where the fair value is the amount that an entity would be required to pay in an active market to settle the asset retirement obligation in a current transaction in circumstances other than a forced liquidation or settlement. Because in most circumstances, a market for settling asset retirement obligations does not exist, the FASB described an expected present value technique for estimating fair value. If the new statement is adopted, Great Bay's and Little Bay's decommissioning liability and annual provision for decommissioning accretion could change relative to 2001. The new statement is effective for fiscal years beginning after June 15, 2002, with earlier adoption encouraged. Great Bay and Little Bay have not quantified the impact, if any, that the new statement will have on the consolidated financial statements.

Impairment or Disposal of Long-Lived Assets: In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144") which replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Although SFAS No. 144 supercedes SFAS No. 121, it retains the fundamental provisions of SFAS No. 121 regarding recognition/measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. Under SFAS No. 144, asset write-downs from discontinuing a business segment will be treated the same as other assets held for sale. The new standard also broadens the financial statement presentation of discontinued operations to include the disposal of an asset group (rather than a segment of a business). SFAS No. 144 is effective beginning January 1, 2002 and, generally, is to be applied prospectively. The Company does not expect that SFAS No. 144 will have a significant impact on its financial position or results of operations.

Item 7A. *Quantitative and Qualitative Disclosure About Market Risk.*

Commodity Price Risk

The prices of electricity are subject to fluctuations resulting from changes in supply and demand. Great Bay sold a portion of its electricity through forward, fixed-price energy trading contracts in prior years, including in 2001. Until December 31, 2001, Great Bay tracked its market exposure for these forward energy trading contracts in a mark-to-market model that was updated daily with current market prices and is reflected in the company's balance sheet. See "Note 5 — Energy Marketing." The positive, or negative, value of Great Bay's portfolio of firm power commitments represented an estimation of the gain, or loss, that Great Bay

would have experienced if open firm commitments were covered at then-current market prices. As of December 31, 2001, Great Bay had no firm forward, fixed energy trading contracts.

Item 8. *Financial Statements and Supplementary Data.*

The response to this item is submitted in the response found under Item 14(a)(1) in this report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.*

Not Applicable.

PART III

Item 10. *Directors and Executive Officers of the Registrant.*

(a) *Directors.* The information with respect to directors required under this item is incorporated herein by reference to the section captioned "Election of Directors" in the Company's Proxy Statement with respect to the Annual Meeting of Stockholders to be held on April 24, 2002.

(b) *Executive Officers.* The information with respect to executive officers required under this item is incorporated by reference to Part I of the Report.

Item 11. *Executive Compensation.*

The information required under this item is incorporated herein by reference to the sections entitled "Election of Directors — Compensation for Directors," "— Executive Compensation," "— Employment Agreements," "— Report of the Compensation Committee" and "— Stock Performance Graph" in the Company's Proxy Statement with respect to the Annual Meeting of Stockholders to be held on April 24, 2002.

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

The information required under this item is incorporated herein by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement with respect to the Annual Meeting of Stockholders to be held on April 24, 2002.

Item 13. *Certain Relationships and Related Transactions.*

The information required under this item is incorporated herein by reference to the section entitled "Certain Relationships and Related Transactions" in the Company's Proxy Statement with respect to the Annual Meeting of Stockholders to be held on April 24, 2002.

PART IV

Item 14. *Exhibits, Financial Statement Schedules and Reports on Form 8-K.*

(a) *Documents filed as a part of this Form 10-K:*

1. *Financial Statements.* The Consolidated Financial Statements listed in the Index to Consolidated Financial Statements and Financial Statement Schedules are filed as part of this Annual Report on Form 10-K.

2. *Exhibits.* The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed as part of this Annual Report on Form 10-K.

(b) *Reports on Form 8-K:*

None

INDEX TO FINANCIAL STATEMENTS
BAYCORP HOLDINGS, LTD.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
BayCorp Holdings, Ltd.

We have audited the accompanying consolidated balance sheets of BayCorp Holdings, Ltd. (a Delaware corporation) and its wholly-owned subsidiaries, as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BayCorp Holdings, Ltd. and its wholly-owned subsidiaries as of December 31, 2001 and 2000, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Boston, Massachusetts
January 30, 2002

BAYCORP HOLDINGS, LTD.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	December 31, 2001	December 31, 2000
ASSETS:		
Current Assets:		
Cash & Cash Equivalents	\$ 15,278	\$ 9,071
Restricted Cash — Escrow	1,903	2,016
Short-term Investments, at market	—	3,022
Accounts Receivable	6,291	3,131
Materials & Supplies, net	4,708	4,760
Prepayments & Other Assets	1,372	1,135
Total Current Assets	29,552	23,135
Property, Plant, & Equipment and Fuel:		
Utility Plant Assets	123,923	111,491
Non-utility Plant Assets	—	104
Total Property, Plant & Equipment	123,923	111,595
Less: Accumulated Depreciation	(22,944)	(19,776)
Net Property, Plant & Equipment	100,979	91,819
Nuclear Fuel	23,365	18,348
Less: Accumulated Amortization	(12,096)	(7,956)
Net Nuclear Fuel	11,269	10,392
Net Property, Plant & Equipment and Fuel	112,248	102,211
Other Assets:		
Decommissioning Trust Fund	32,048	28,146
Deferred Debits & Other	424	102
Total Other Assets	32,472	28,248
Total Assets	<u>\$174,272</u>	<u>\$153,594</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 1,607	\$ 8,187
Miscellaneous Current Liabilities	5,309	14,665
Total Current Liabilities	6,916	22,852
Operating Reserves:		
Decommissioning Liability	85,523	71,618
Miscellaneous Other	386	470
Total Operating Reserves	85,909	72,088
Other Liabilities & Deferred Credits	7,892	7,115
Commitments & Contingencies		
Stockholders' Equity:		
Common stock, \$0.01 par value		
Authorized — 20,000,000 shares; issued and outstanding — 8,586,316 at December 31, 2001 and 8,519,316 at December 31, 2000	86	86
Less: Treasury Stock — 185,052 shares, at cost	(1,396)	(1,396)
Additional Paid-in Capital	93,357	92,934
Accumulated Other Comprehensive Income	223	318
Accumulated Deficit	(18,715)	(40,403)
Total Stockholders' Equity	73,555	51,539
Total Liabilities and Stockholders' Equity	<u>\$174,272</u>	<u>\$153,594</u>

(The accompanying notes are an integral part of these consolidated statements.)

BAYCORP HOLDINGS, LTD.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31,
(Dollars in Thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operating Revenues	\$ 79,480	\$ 56,347	\$ 45,731
Operating Expenses:			
Production	24,438	25,016	18,220
Transmission	997	1,073	873
Purchased Power	27,008	13,270	12,232
Unrealized (Gain) Loss on Firm Energy Trading Contracts ...	(12,879)	12,232	806
Administrative & General	9,211	7,372	6,706
Depreciation & Amortization	3,730	4,159	3,823
Taxes Other than Income	<u>3,516</u>	<u>3,938</u>	<u>2,966</u>
Total Operating Expenses	56,021	67,060	45,626
Operating Income (Loss)	23,459	(10,713)	105
Other Income:			
Interest and Dividend Income	(520)	(1,162)	(647)
Decommissioning Cost Accretion	3,261	3,633	3,320
Decommissioning Trust Fund Income	(1,599)	(1,726)	(755)
Equity Loss in HoustonStreet Investment	450	4,352	3,396
Other Deductions(Income)	<u>179</u>	<u>(753)</u>	<u>(310)</u>
Total Other Deductions	1,771	4,344	5,004
Income (Loss) Before Income Taxes and Accounting Change ..	21,688	(15,057)	(4,899)
Provision for Income Taxes	<u>—</u>	<u>(612)</u>	<u>—</u>
Income (Loss) Before Change in Accounting Principle	21,688	(15,669)	(4,899)
Cumulative Effect of Change in Accounting Principle	<u>—</u>	<u>—</u>	<u>159</u>
Net Income (Loss)	21,688	(15,669)	(4,740)
Other Comprehensive Income (Expense), net of tax	<u>(95)</u>	<u>321</u>	<u>(568)</u>
Comprehensive Income (Loss)	<u>\$ 21,593</u>	<u>\$ (15,348)</u>	<u>\$ (5,308)</u>
Weighted Average Shares Outstanding — Basic	8,341,637	8,293,475	8,207,866
Weighted Average Shares Outstanding — Diluted	8,556,994	8,293,475	8,207,866
Basic Net Income (Loss) per Share	\$ 2.60	\$ (1.89)	\$ (0.58)
Diluted Net Income (Loss) per Share	\$ 2.53	\$ (1.89)	\$ (0.58)

(The accompanying notes are an integral part of these consolidated statements.)

BAYCORP HOLDINGS, LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in Thousands)

	Common Stock, \$0.01 Par Value		Less: Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Issued and outstanding Shares	Issued and outstanding Amount	Shares	Amount				
Balance at December 31, 1998	8,377,000	\$84	185,052	\$(1,396)	\$92,100	\$565	\$(19,994)	\$ 71,359
Stock Options Exercised	40,000	—	—	—	195	—	—	195
Net Change in Unrealized Holding Loss	—	—	—	—	—	(568)	—	(568)
Financial Results, January 1 to December 31, 1999	—	—	—	—	—	—	(4,740)	(4,740)
Balance at December 31, 1999	8,417,000	\$84	185,052	\$(1,396)	\$92,295	\$ (3)	\$(24,734)	\$ 66,246
Stock Options Exercised	102,316	2	—	—	534	—	—	536
Other Incentive Stock Option Transactions	—	—	—	—	105	—	—	105
Net Change in Unrealized Holding Gain	—	—	—	—	—	321	—	321
Financial Results, January 1 to December 31, 2000	—	—	—	—	—	—	(15,669)	(15,669)
Balance at December 31, 2000	8,519,316	\$86	185,052	\$(1,396)	\$92,934	\$318	\$(40,403)	\$ 51,539
Stock Options Exercised	67,000	—	—	—	423	—	—	423
Net Change in Unrealized Holding Gain	—	—	—	—	—	(95)	—	(95)
Financial Results, January 1 to December 31, 2001	—	—	—	—	—	—	21,688	21,688
Balance at December 31, 2001	<u>8,586,316</u>	<u>\$86</u>	<u>185,052</u>	<u>\$(1,396)</u>	<u>\$93,357</u>	<u>\$223</u>	<u>\$(18,715)</u>	<u>\$ 73,555</u>

(The accompanying notes are an integral part of these consolidated statements.)

BAYCORP HOLDINGS, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,
(Dollars in Thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net cash flow from operating activities:			
Net Income (Loss)	\$ 21,688	\$ (15,669)	\$ (4,740)
Adjustments to reconcile net income(loss) to net cash provided by operating activities:			
Equity loss in HoustonStreet investment	450	4,352	3,396
Depreciation and Amortization	3,272	4,159	3,787
Amortization of nuclear fuel	4,140	4,791	4,032
Unrealized (gain) loss on firm energy trading contracts	(12,879)	12,232	647
Stock compensation expense	—	105	—
Decommissioning cost accretion	3,261	3,633	3,320
Decommissioning trust income	(1,284)	(1,604)	(670)
(Increase) decrease in accounts receivable	(3,160)	5,550	(5,631)
(Increase) decrease in materials & supplies	52	(373)	(160)
(Increase) decrease in prepaids and other assets	(559)	1,900	60
Increase (decrease) in accounts payable and accrued expenses	(6,580)	7,202	160
Increase (decrease) in misc. and other liabilities	<u>4,216</u>	<u>(391)</u>	<u>116</u>
Net cash provided by operating activities	12,617	25,887	4,317
Net cash flows from investing activities:			
Capital additions	(1,789)	(2,108)	(1,797)
Nuclear fuel additions	(5,017)	(6,803)	(1,999)
Acquisition of additional Seabrook Project interest	—	—	(4,913)
Payments to decommissioning fund	(2,617)	(1,763)	(1,696)
Short-term investments, net	<u>2,927</u>	<u>(2,641)</u>	<u>9,063</u>
Net cash used in investing activities	(6,496)	(13,315)	(1,342)
Net cash from financing activities:			
Investment in HoustonStreet	(450)	(7,570)	(180)
Stock option exercise	<u>423</u>	<u>536</u>	<u>195</u>
Net cash provided by (used in) financing activities	(27)	(7,034)	15
Net increase in cash and cash equivalents	6,094	5,538	2,990
Cash and cash equivalents, beginning of period	<u>11,087</u>	<u>5,549</u>	<u>2,559</u>
Cash and cash equivalents, end of period	<u>\$ 17,181</u>	<u>\$ 11,087</u>	<u>\$ 5,549</u>

(The accompanying notes are an integral part of these consolidated statements).

BAYCORP HOLDINGS, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Company

BayCorp Holdings, Ltd. ("BayCorp" or the "Company") is a holding company incorporated in Delaware in 1996. BayCorp owns two subsidiaries that generate and trade wholesale electricity, Great Bay Power Corporation ("Great Bay") and Little Bay Power Corporation ("Little Bay"), each of which was wholly-owned as of December 31, 2001. In addition, BayCorp owns 45.9% of HoustonStreet Exchange, Inc. ("HoustonStreet"), an Internet-based independent crude oil and refined products trading exchange.

Great Bay and Little Bay are electric generating and trading companies. Their principal asset is a combined 15% joint ownership interest in the Seabrook Nuclear Power Project in Seabrook, New Hampshire (the "Seabrook Project" or "Seabrook"). This ownership interest entitles the companies to approximately 174 megawatts ("MWs") of the Seabrook Project's power output. Great Bay and Little Bay are exempt wholesale generators ("EWGs") under the Public Utility Holding Company Act of 1935 ("PUHCA"). Unlike regulated public utilities, Great Bay and Little Bay have no franchise area or captive customers. The companies sell their power in the competitive wholesale power markets.

Great Bay was incorporated in New Hampshire in 1986 and was formerly known as EUA Power Corporation. Little Bay was incorporated in New Hampshire in 1998. Great Bay sells its power, including its share of the electricity output of the Seabrook Project, in the wholesale electricity market, primarily in the Northeast United States. Little Bay sells its power solely to Great Bay under an intercompany agreement. Neither BayCorp nor its subsidiaries have operational responsibilities for the Seabrook Project. Great Bay currently sells all but approximately 10 MWs of its share of the Seabrook Project capacity in the wholesale short-term market. In addition to selling the power it owns generated by Seabrook, Great Bay purchases power on the open market for resale to third parties.

In November 1999, Little Bay purchased an additional 2.9% interest in the Seabrook Project from Montaup Electric Company ("Montaup"), a subsidiary of Eastern Utilities Associates ("EUA"), for a purchase price of \$3.2 million, plus approximately \$1.7 million for certain prepaid items, primarily nuclear fuel and capital expenditures. In addition, Montaup prefunded the decommissioning liability associated with Little Bay's 2.9% share of Seabrook by transferring approximately \$12.4 million into Little Bay's decommissioning account, an irrevocable trust earmarked for Little Bay's share of Seabrook Project decommissioning expenses.

The Seabrook Project is a nuclear-fueled, steam electricity, generating plant located in Seabrook, New Hampshire, which was originally planned to have two Westinghouse pressurized water reactors, Seabrook Unit 1 and Seabrook Unit 2 (each with a rated capacity of 1,150 megawatts), utilizing ocean water for condenser cooling purposes. Seabrook Unit 1 entered commercial service on August 19, 1990. Seabrook Unit 2 has been canceled. Great Bay became a wholesale generating company when Seabrook Unit 1 commenced commercial operation on August 19, 1990. In 1993, the Company became an EWG under the Energy Policy Act of 1992.

The Seabrook Project is owned by Great Bay, Little Bay and nine other utility companies, consisting of North Atlantic Energy Company, Connecticut Light and Power, The United Illuminating Company, Canal Electric Company, Massachusetts Municipal Wholesale Electric Company, New England Power Company, New Hampshire Electric Cooperative, Inc., Taunton Municipal Lighting Plant and Hudson Light & Power Department (together with Great Bay and Little Bay, the "Participants"). Great Bay, Little Bay and the other Participants are parties to the Agreement for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units (the "JOA"), which establishes the respective ownership interests of the Participants in the Seabrook Project and defines their responsibilities with respect to the ongoing operation, maintenance and decommissioning of the Seabrook Project. In general, all ongoing costs of the Seabrook Project are divided proportionately among the Participants in accordance with their ownership interests in the

BAYCORP HOLDINGS, LTD.

NOTES TO FINANCIAL STATEMENTS — Continued

Seabrook Project. Each Participant is only liable for its share of the Seabrook Project's costs and not liable for any other Participant's share as ownership interests in the Seabrook Project are several and not joint. Great Bay's and Little Bay's combined joint ownership interest of 15% is the third largest interest among the Participants, exceeded only by the approximately 40% interest held by Northeast Utilities ("NU") and its affiliates and the 17.5% interest held by The United Illuminating Company.

In October 2000, the Company announced that it had reached an agreement with NU under which the Company's generating subsidiaries, Great Bay and Little Bay, will include their aggregate 15% ownership share of the Seabrook Project in the upcoming auction of NU's subsidiaries' shares of the Seabrook Project. Under the terms of the agreement, BayCorp will receive the sales price established by the auction process. In the event that the sale yields proceeds for BayCorp of more than \$87.2 million, BayCorp and NU will share the excess proceeds. Should BayCorp's sales proceeds be less than \$87.2 million, NU will make up the difference below that amount on a dollar for dollar basis up to a maximum of \$17.4 million. Under the agreement, BayCorp will be paid separately for nuclear fuel and inventory. The agreement also limits any top-off amount required to be funded by BayCorp for decommissioning as part of the sale process at the amount required by the Nuclear Regulatory Commission ("NRC") regulations.

In October 2001, the Company announced that the New Hampshire Public Utilities Commission ("NHPUC") and the Connecticut Department of Public Utility Control ("CDPUC") selected J.P. Morgan as their financial advisor for the sale of ownership interests in the Seabrook Project. J.P. Morgan will manage the sale under the oversight of the NHPUC and the CDPUC. J.P. Morgan managed the recent sales of the Millstone and Vermont Yankee nuclear plants. In December 2001, the NHPUC in coordination with the CDPUC, announced the start of the auction of 88.2% of the ownership shares of the Seabrook Project. BayCorp anticipates the closing of the sale in the fourth quarter of 2002.

With continued uncertainty about the possibility of additional terrorist activities in the United States, the Nation's nuclear power plants, including the Seabrook Project, remain at a high level of security. On February 25, 2002, the NRC issued an order to all nuclear plant licensees, requiring them to take certain additional interim compensatory measures to address the generalized high-level threat environment. These additional compensatory requirements will provide the NRC with reasonable assurance that public health and safety and the common defense and security continue to be adequately protected in the current generalized high-level threat environment. These requirements will remain in effect pending notification from the NRC that a significant change in the threat environment occurs, or until the NRC determines that other changes are needed following a more comprehensive reevaluation of current safeguards and security programs. Seabrook remains at a high level of security and the management of Seabrook has assured the joint owners of Seabrook that it will take actions necessary to comply with the NRC order setting out the requirements for interim compensatory measures. Compliance with these requirements will result in additional incremental operating and capital costs. Should additional security measures be required by the NRC, additional operating or capital costs could be incurred at the Seabrook Project.

Traditionally, Great Bay sold most of its share of the Seabrook Project electricity output under unit contingent contracts. Under unit contingent contracts, Great Bay is obligated to provide the buyer with power only when the Seabrook Project is operating. In late 1998, Great Bay began to sell some of its electricity as firm power, which entitles the buyer to electricity whether or not the Seabrook Project is operating. Buyers pay a premium for firm power over unit contingent power because they can rely on uninterrupted electricity. In order to supply firm power during unscheduled outages at the Seabrook Project, Great Bay purchases power from the spot market during these outages and resells that power to its firm power customers. Spot market sales are subject to price fluctuations based on the relative supply and demand of electricity. As a result of spot market power price fluctuations, Great Bay may have to purchase power at prices exceeding prices paid by Great Bay's firm power customers during outages. Although Great Bay bears the primary risk of these price fluctuations, Great Bay maintained insurance in 2001 and 2000 to protect Great Bay during periods of extreme

BAYCORP HOLDINGS, LTD.

NOTES TO FINANCIAL STATEMENTS — Continued

price volatility, subject to certain deductibles and coverage limits. Great Bay has not entered into any firm power contracts for 2002 given the expected sale of the Seabrook Project in 2002. In December 2001, Great Bay negotiated a buyout of the remaining insurance policy it held due to the absence of any firm sales during 2002. Without firm contracts, the insurance was not needed as protection against replacement power costs.

As of March 15, 2002, BayCorp had eleven employees. BayCorp's subsidiaries, Great Bay and Little Bay, had no employees. HoustonStreet had six employees.

HoustonStreet was incorporated in Delaware in 1999. HoustonStreet is an equity investment of BayCorp. HoustonStreet developed and operates HoustonStreet.com, an Internet-based independent crude oil and refined products trading exchange. HoustonStreet offers this online trading platform for over-the-counter crude oil and refined products in the United States.

As of December 31, 1999, the Company owned 100% of HoustonStreet. HoustonStreet raised additional equity in 2000 from outside investors and as a result, as of December 4, 2000, the Company's ownership fell below 50%, to 45.9%. Subsequently, the Company deconsolidated HoustonStreet as of December 4, 2000 and started accounting for this investment on the equity method.

On March 21, 2001, HoustonStreet raised approximately \$2.9 million in additional funding, including \$450,000 from BayCorp, by selling senior secured notes, warrants to purchase HoustonStreet preferred stock and warrants to purchase HoustonStreet common stock. Collectively, these securities are referred to as the "HoustonStreet Series C Units." In April 2001, BayCorp authorized HoustonStreet to convert BayCorp's \$7,000,000 loan made in 2000, along with approximately \$1,000,000 in accrued interest and penalties on the note and past due management fees, into \$8,000,000 of Series C Units. The loan, accrued interest and receivables from HoustonStreet had been written down to zero as of December 31, 2000 and as such, the conversion of these amounts had no accounting impact on BayCorp.

In 2001, HoustonStreet made the decision to downsize its organization and to focus its efforts on its crude oil and refined products trading platforms. HoustonStreet shut down its electricity-trading platform in the second half of 2001. As of March 15, 2002, HoustonStreet had six employees.

On October 2, 2000, the Seabrook Project began a refueling outage with a return to full power operation planned for November 21, 2000. The outage was extended when damage to one of the plant's emergency diesel generators occurred, requiring an extensive repair effort. The Seabrook Project did not return to full power until February 1, 2001. The replacement power costs, normal operating costs and additional costs of the extended outage significantly impacted earnings and cash flow.

The Seabrook outage and HoustonStreet loan impacted the Company's unrestricted cash, which was approximately \$3,500,000 as of February 8, 2001. To deal with the adverse effects of these events the Company entered into an agreement with Select Energy ("Select"), (see Note 6) whereby Select prepaid approximately \$7,000,000 to the Company for power purchases.

B. Regulation

Great Bay and Little Bay are subject to the regulatory authority of the Federal Energy Regulatory Commission ("FERC"), the NRC, the NHPUC and other federal and state agencies as to rates, operations and other matters. Great Bay's and Little Bay's cost of service, however, is not regulated. As such, Great Bay's and Little Bay's accounting policies are not subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation."

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

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NOTES TO FINANCIAL STATEMENTS — Continued

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Utility Plant

The costs of additions to utility plant and non-utility plant are recorded at original cost.

E. Depreciation

Utility plant is depreciated on the straight-line method at rates designed to fully depreciate all depreciable properties over the lesser of estimated useful lives or the Seabrook Project's remaining NRC license life, which expires in 2026.

Capital projects constituting retirement units are charged to electric plant. Minor repairs are charged to maintenance expense. When properties are retired, the original costs, plus costs of removal, less salvage, are charged to the accumulated provision for depreciation.

F. Amortization of Nuclear Fuel

The cost of nuclear fuel is amortized to expense based on the rate of burn-up of the individual assemblies comprising the total core. Great Bay and Little Bay also provide for the cost of disposing of spent nuclear fuel at rates specified by the United States Department of Energy ("DOE") under a contract for disposal between Great Bay and Little Bay, through their managing agent North Atlantic Energy Service Corporation ("NAESCO"), and the DOE.

Great Bay recorded the estimated cost of the final unspent nuclear fuel core, which is expected to be in place at the expiration of the Seabrook Project's NRC operating license, as part of Great Bay's original "Fresh Start" balance sheet.

G. Amortization of Materials and Supplies

Great Bay and Little Bay amortize to expense an amount designed to fully amortize the cost of the material and supplies inventory that is expected to be on hand at the expiration of the Plant's NRC operating license.

H. Decommissioning

Based on the Financial Accounting Standards Board's ("FASB") tentative conclusions, reflected on the February 7, 1996, Exposure Draft titled "Accounting for Certain Liabilities Related to Closure and Removal of Long-Lived Assets" Great Bay and Little Bay have recognized as a liability their proportionate share of the present value of the estimated cost of Seabrook Project decommissioning. For Great Bay, the initial recognition of this liability was capitalized as part of the Fair Value of the Utility Plant at November 23, 1994. For Little Bay, the amount was provided for in the purchase price allocation.

New Hampshire enacted a law in 1981 requiring the creation of a state-managed fund to finance decommissioning of any nuclear units in the state. The Seabrook Project's decommissioning estimate and funding schedule is subject to review each year by the New Hampshire Nuclear Decommissioning Financing Committee ("NDFC"). This estimate is based on a number of assumptions. Changes in assumptions for such things as labor and material costs, technology, inflation and timing of decommissioning could cause these estimates to change, possibly materially, in the near term. During November 2001, the NDFC issued an order which established a decommissioning funding schedule in anticipation of the sale of a majority of the ownership interests in Seabrook. The NDFC set an accelerated funding schedule for the years 2002 through

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NOTES TO FINANCIAL STATEMENTS — Continued

2006. For the years 2007 and beyond, the funding schedule assumes contributions will be made until 2026. The order also established the requirement for a lump sum "top-off" payment at closing. The current estimated cost to decommission the Seabrook Project (based on NDFC Docket 2001-1) is approximately \$555.6 million in 2001 dollars, assuming for decommissioning funding purposes, a remaining 24-year life for the facility and a future cost escalation of 5.25%.

The Staff of the Securities and Exchange Commission ("SEC") has questioned certain of the current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations and joint owners in the financial statements of these entities. In response to these questions, the FASB agreed to review the accounting for nuclear decommissioning costs. On February 17, 2000 the FASB issued a "Revision of Exposure Draft issued February 7, 1996, Proposed Statement of Financial Accounting Standards: Accounting for Obligations Associated with the Retirement of Long-Lived Assets." On June 30, 2000, the respective proposed statement was issued by the FASB. In August 2001, the FASB approved the issuance of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Retirement Obligations." SFAS No. 143 provides accounting requirements for the recognition and measurement of liabilities associated with the retirement of long-lived assets and requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Great Bay's and Little Bay's accounting for decommissioning is based on the FASB's original tentative conclusions. The new statement requires that an obligation associated with the retirement of a tangible long-lived asset be recognized as a liability when incurred, and that the amount of the liability resulting from (a) the passage of time and (b) revisions to either the timing or amount of estimated cash flows should also be recognized. The new statement also requires that, upon initial recognition of a liability for an asset retirement obligation, an entity capitalize that cost by recognizing an increase in the carrying amount of the related long-lived asset.

The new statement requires the initial measurement of the liability to be based on fair value, where the fair value is the amount that an entity would be required to pay in an active market to settle the asset retirement obligation in a current transaction in circumstances other than a forced liquidation or settlement. Because in most circumstances, a market for settling asset retirement obligations does not exist, the FASB described an expected present value technique for estimating fair value. If the new statement is adopted, Great Bay's and Little Bay's decommissioning liability and annual provision for decommissioning accretion could change relative to 2001. The new statement is effective for fiscal years beginning after June 15, 2002, with earlier adoption encouraged. Great Bay and Little Bay have not quantified the impact, if any, that the new statement will have on the consolidated financial statements.

Great Bay and Little Bay, based on the initial exposure draft, have been recognizing a liability based on the present value of the estimated future cash outflows required to satisfy their obligations using a risk free rate. As of December 31, 2001, the estimated undiscounted cash outflows for Great Bay and Little Bay, for decommissioning, based on the November 2001 NDFC study, with decommissioning expenditures starting in 2024 and being completed in 2046, was \$418.3 million, which discounted at an average rate of 4.75%, over the funding period, to December 31, 2001, represented a liability of \$85.5 million reflected in the accompanying balance sheet. As of December 31, 2000, and based on the prior NDFC study, the estimated undiscounted cash outflows for Great Bay and Little Bay, for decommissioning expenditures, starting in 2013 and being completed in 2042 was \$217.2 million, which discounted at an average rate of 4.75%, over the funding schedule to December 31, 2000 represented a liability of \$71.6 million reflected in the accompanying consolidated balance sheet. In accordance with the original exposure draft, the company's wholly-owned subsidiaries record any adjustments to the decommissioning liability due to changes in estimates in the utility plant account.

Great Bay and Little Bay accrete their share of the Seabrook Project's decommissioning liability. This accretion is a non-cash charge and recognizes their liability related to the closure and decommissioning of

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NOTES TO FINANCIAL STATEMENTS — Continued

their nuclear plant in current year dollars over the licensing period of the plant. The non-cash accretion charge recorded in the accompanied consolidated statements of income was \$3,261,000, \$3,633,000 and \$3,329,000 for the years ended December 31, 2001, 2000 and 1999. The change in the accretion between years reflects adjustments to the estimated decommissioning by the NDFC.

Funds collected by Seabrook for decommissioning are deposited in an external irrevocable trust pending their ultimate use. The earnings on the external trusts also accumulate in the fund balance. The trust funds are restricted for use in paying the decommissioning of Unit 1. The investments in the trust are available for sale. Great Bay and Little Bay have therefore reported their investment in trust fund assets at market value and any unrealized gains and losses are reflected in equity. There was an unrealized holding gain of \$222,700 and \$338,100 as of December 31, 2001 and 2000.

Although the owners of Seabrook are accumulating funds in an external trust to defray decommissioning costs, these costs could substantially exceed the value of the trust fund, and the owners, including Great Bay and Little Bay, would remain liable for the excess.

In June 1998, the New Hampshire State legislature enacted legislation that provides that in the event of a default by Great Bay on its payments to the decommissioning fund, the other Seabrook joint owners would be obligated to pay their proportional share of such default. As a result of the enactment of this legislation, the staff of the NRC notified Great Bay in July 1998 of the staff's determination that Great Bay complies with the decommissioning funding assurance requirements under NRC regulations.

In response to the obligations imposed on the other Joint Owners under the New Hampshire legislation, Great Bay agreed to make accelerated payments to the Seabrook decommissioning fund such that Great Bay will have contributed sufficient funds by the year 2015 to allow sufficient monies to accumulate, with no further payments by Great Bay to the fund, to the full estimated amount of Great Bay's decommissioning obligation by the time the current Seabrook operating license expires in 2026. Based on the currently approved funding schedule and Great Bay's accelerated funding schedule, Great Bay's decommissioning payments will be approximately \$1.4 million in 2002 and escalate at 4% each year thereafter through 2015. Little Bay's share of decommissioning costs was prefunded by Montaup, the owner of the 2.9% interest in the Seabrook Project that Little Bay acquired in November 1999. As part of that acquisition, Montaup transferred approximately \$12.4 million into Little Bay's decommissioning account, an irrevocable trust earmarked for Little Bay's share of Seabrook Plant decommissioning expenses. As of December 31, 2001 the fair market value of the Little Bay decommissioning account was \$13.6 million.

On November 15, 1992, Great Bay, the Bondholder's Committee and the Predecessor's former parent, Eastern Utilities ("EUA") entered into a settlement agreement that resolved certain proceedings against EUA brought by the Bondholder's Committee. Under the settlement agreement EUA reaffirmed its guarantee of up to \$10 million of Great Bay's future decommissioning costs of Seabrook Unit 1.

I. Operating Revenues

Revenues are recorded on an accrual basis based on billing rates provided for in contracts and approved by FERC. During the year ended December 31, 2001, three customers accounted for 32%, 16% and 15% of total operating revenues. For the year ended December 31, 2000, four customers accounted for 17%, 15%, 14% and 13% of total operating revenues. For the year ended December 31, 1999, two customers accounted for 29% and 24% of total operating revenues.

J. Taxes On Income

The Company accounts for taxes on income under the liability method required by SFAS No. 109, "Accounting for Income Taxes."

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NOTES TO FINANCIAL STATEMENTS — Continued

K. Cash Equivalents and Short Term Investments

For purposes of the Statements of Cash Flows, the Company considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. The carrying amounts approximate fair value because of the short-term maturity of the investments.

All other short-term investments with a maturity of greater than three months are classified as available for sale and reflected as a current asset at market value. Changes in the market value of such securities are reflected in equity. There were no short-term investments as of December 31, 2001. The unrealized holding loss on short-term investments was \$20,100 as of December 31, 2000.

L. Seabrook Unit 2

Since the Seabrook Project was originally designed to consist of two generating units, Great Bay and Little Bay also own a combined 15% joint ownership interest in Seabrook Unit 2. Great Bay and Little Bay assigned no value to Seabrook Unit 2 because on November 6, 1986, the joint owners of the Seabrook Project voted to dispose of Unit 2. Thereafter, Great Bay wrote off its investment in Unit 2. Little Bay has no investment in Unit 2. Certain assets of Seabrook Unit 2 have been sold from time to time to third parties. However, there have been no material sales of Unit 2 assets since July 1996.

Because Seabrook Unit 2 was never completed or operated, costs associated with its disposition are not included in the amounts collected for the decommissioning of Unit 1 and the common facilities. Great Bay and Little Bay currently pay their share of monthly expenses required to preserve and protect the value of the Seabrook Unit 2 components. Any sales of Unit 2 property or inventory are reflected in other income as gains on the sale or transfer of assets. Transfers of Unit 2 items to Unit 1 were done at the historical basis of Unit 2 property or components. Seabrook Unit 2 will be sold as part of the expected sale of the Seabrook Project in 2002. The Participants in Seabrook Unit 1 and Unit 2 have agreed to contribute their pro-rata share of \$2 million to an escrow account for the development and performance of a plan to mitigate the visual impact of Unit 2. The contribution to the escrow account is scheduled to occur within 60 days of the closing of the sale of Seabrook.

M. Seabrook Outage Costs

The Company's operating results and the comparability of these results on an interim and annual basis are directly impacted by the operations of the Seabrook Project, including the cyclical refueling outages (generally 18 months apart) as well as unscheduled outages. During outage periods at the Seabrook Project, Great Bay and Little Bay have no electricity for resale from the Seabrook Project and consequently no related revenues. Therefore the impact of outages on the Company's and Great Bay's and Little Bay's results of operations and financial position are materially adverse.

Great Bay and Little Bay accrue for the incremental costs of the Seabrook Project's scheduled outages over the periods between those outages. However, Great Bay and Little Bay continue to expense the normal Seabrook operating and maintenance expenses as incurred. Therefore, the Company will incur losses during scheduled outage periods as a result of the combination of the lack of revenue and the recognition of normal recurring operation and maintenance costs as well as the continuing depreciation of the utility plant. At the Seabrook Project, a scheduled refueling outage began on October 21, 2000. Seabrook resumed full operating capacity on February 1, 2001. Seabrook Project management have scheduled the next outage to begin in May 2002. The 2002 outage has an estimated incremental operations and maintenance cost of \$32 million. The Company's share is approximately \$4.8 million. The estimate is based on a number of assumptions. Changes in assumptions for such things as labor and contractor costs, required repairs and days to perform the outage and plant operations in the interim, could cause this estimate to change.

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N. Acquisitions

On November 19, 1999, BayCorp's wholly-owned subsidiary, Little Bay, purchased an additional 2.9% interest in the Seabrook Nuclear Power Project from Montaup, a subsidiary of EUA. The purchase price was \$3.2 million plus approximately \$1.9 million for certain prepaid items, primarily nuclear fuel and capital expenditures. The purchase price was funded with existing cash. Little Bay allocated the purchase price based on the estimated fair value of the assets acquired and liabilities assumed. A summary of the components of the purchase price and the purchase price allocation is as follows:

	<u>(Dollars in Thousands)</u>
Allocation of Purchase Price:	
Current assets	\$ 1,005
Utility plant	3,890
Nuclear fuel	1,845
Liabilities assumed and other	<u>(1,827)</u>
	<u><u>\$ 4,913</u></u>

In addition, Montaup prefunded the decommissioning liability associated with Little Bay's 2.9% share of Seabrook by transferring approximately \$12.4 million into Little Bay's decommissioning account, an irrevocable trust earmarked for Little Bay's share of the Seabrook Project decommissioning expenses. Little Bay recorded an asset, Decommissioning Trust Fund, for \$12.4 million and a corresponding liability for the same amount. The purchase agreement required that a restricted cash-escrow account be established to cover Little Bay's share of budgeted cash requirements for a six-month period. This fund is used to pay Little Bay's share of Seabrook costs of operations and capital expenditures during periods of Seabrook shutdowns.

Little Bay sells its power solely to Great Bay under an intercompany agreement at cost. Great Bay then sells the power purchased from Little Bay in the wholesale electricity market. The accompanying consolidated financial statements include the results of the acquisition since November 19, 1999. Intercompany amounts between Little Bay and Great Bay have been eliminated in consolidation.

O. Segment Information

The Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the reporting of information about operating segments in annual and interim financial statements and requires restatement of prior year information. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker(s) in deciding how to allocate resources and in assessing performance. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The Company currently operates only in the electric generating segment in the Northeast United States.

P. Earnings Per Share

Basic earnings (loss) per share is computed by dividing net earnings by the weighted number of common shares outstanding for all periods presented. Diluted earnings (loss) per share reflects the dilutive effect of shares under option plans. Potentially dilutive shares outstanding during 2000 and 1999 have been excluded from diluted earnings (loss) per share because their effect would be antidilutive.

Based on an average market price of common stock of \$9.11 per share for the year ended December 31, 2001 and \$11.35 per share for the year ended December 31, 2000, the following table reconciles the weighted

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average common shares outstanding to the shares used in the computation of the basic and diluted earnings per share outstanding.

	December 31, 2001	December 31, 2000	December 31, 1999
Weighted average number of common shares outstanding and used in basic EPS calculation	8,341,637	8,293,475	8,207,866
Weighted average number of common shares outstanding and used in diluted EPS calculation	8,556,994	8,293,475	8,207,866
Shares under option plans, excluded in computation of diluted EPS due to antidilutive effects	—	276,296	3,341

Q. Accumulated Other Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" which requires the Company to report the changes in shareholders' equity from all sources during the period other than those resulting from investments by shareholders (i.e., issuance or repurchase of common shares and dividends.) Although adoption of this standard has not resulted in any change to the historic basis of determination of earnings or shareholders' equity, the other comprehensive income components recorded under generally accepted accounting principles and previously included under the category "retained earnings" are displayed as "accumulated other comprehensive income" within the balance sheet. The composition of other comprehensive income is as follows:

	Unrealized Gains (Losses) on Securities	Accumulated Other Comprehensive Income
Twelve Months Ending December 31, 1999		
Beginning Balance	\$ 565,000	\$ 565,000
1999 Change	(568,000)	(568,000)
December 31, 1999	(3,000)	(3,000)
2000 Change	321,032	321,032
December 31, 2000	318,032	318,032
2001 Change	(95,340)	(95,340)
December 31, 2001	<u>\$ 222,692</u>	<u>\$ 222,692</u>

R. Reclassifications

Certain reclassifications have been made in prior years' financial statements to conform to classifications and presentation used in the current year.

S. Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and all its majority-owned and controlled subsidiaries. The Company applies the equity method of accounting for investments between 20% and 50%. All significant intercompany transactions have been eliminated. At December 31, 1999, BayCorp owned 100% of HoustonStreet. As of December 31, 2000 and as of December 31, 2001, the Company owned 45.9% of HoustonStreet. Therefore, during 2000, the Company deconsolidated HoustonStreet. At December 31, 2000 and December 31, 2001, the Company accounts for this investment on the equity method and is presenting the 1999 financial statement on a comparative basis (see Note 12.) The Company has an agreement with HoustonStreet under which it is providing certain accounting and

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NOTES TO FINANCIAL STATEMENTS — Continued

administrative services to Houston Street for the periods April 1999 to December 2001 and for the calendar year 2002. Income related to such services was \$165,000 for the period ending December 31, 2001.

T. Long-Lived Assets and Long-Lived Assets to be Disposed Of.

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review of the recoverability, the entity should estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Otherwise, an impairment loss is not recognized. This statement requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The sales agreement with NU established a minimum expected value for the Company's investment in the Seabrook plant. The Company estimates that the current carrying amount for the respective investment is the lower of the carrying amount or fair value less cost to sell in accordance with SFAS No. 121. In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," which replaces SFAS No. 121. This new statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Although SFAS No. 144 supersedes SFAS No. 121, it retains the fundamental provisions of SFAS No. 121 regarding recognition/measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. Under SFAS No. 144, asset write-downs from discontinuing a business segment will be treated the same as other assets held for sale. The new statement also broadens the financial statement presentation of discontinued operations to include the disposal of an asset group (rather than a segment of a business segment). SFAS No. 144 is effective beginning January 1, 2002 and, generally is to be applied prospectively. Although the Company is studying the potential impacts of adopting this new statement, the Company does not expect it will have a significant impact on its financial position or results of operations.

2. NUCLEAR ISSUES

Like other nuclear generating facilities, the Seabrook Project is subject to extensive regulation by the NRC. The NRC is empowered to authorize the siting, construction and operation of nuclear reactors after consideration of public health, safety, environmental and antitrust matters.

The NRC has promulgated numerous requirements affecting safety systems, fire protection, emergency response planning and notification systems and other aspects of nuclear plant construction, equipment and operation. Great Bay and Little Bay have been, and may be, affected to the extent of their proportionate shares by the cost of any such modifications to Seabrook Unit 1.

Nuclear units in the United States have been subject to widespread criticism and opposition. Some nuclear projects have been canceled following substantial construction delays and cost overruns as the result of licensing problems, unanticipated construction defects and other difficulties. Various groups have by litigation, legislation and participation in administrative proceedings sought to prohibit the completion and operation of nuclear units and the disposal of nuclear waste. In the event of a shutdown of any unit, NRC regulations require that it be completely decontaminated of any residual radioactivity. The cost of such decommissioning, depending on the circumstances, could substantially exceed the owners' investment at the time of cancellation.

Public controversy concerning nuclear power could adversely affect the operating license of Seabrook Unit 1. While the Company cannot predict the ultimate effect of such controversy, it is possible that it could result in a premature shutdown of the unit.

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With continued uncertainty about the possibility of additional terrorist activities in the United States, the Nation's nuclear power plants, including the Seabrook Project, remain at a high level of security. On February 25, 2002, the NRC issued an order to all nuclear plant licensees, requiring them to take certain additional interim compensatory measures to address the generalized high-level threat environment. These additional compensatory requirements will provide the NRC with reasonable assurance that public health and safety and the common defense and security continue to be adequately protected in the current generalized high-level threat environment. These requirements will remain in effect pending notification from the NRC that a significant change in the threat environment occurs, or until the NRC determines that other changes are needed following a more comprehensive reevaluation of current safeguards and security programs. Seabrook remains at a high level of security and will take actions necessary to comply with the NRC order setting out the requirements for interim compensatory measures. Compliance with these requirements will result in additional incremental operating and capital costs. Should additional security measures be required by the NRC, additional operating or capital costs could be incurred at the Seabrook Project.

A. Nuclear Fuel

The Seabrook Project's managing agent has made, or expects to make, various arrangements for the acquisition of uranium concentrate, the conversion, enrichment, fabrication and utilization of nuclear fuel and the disposition of that fuel after use. Many of these arrangements are pursuant to multi-year contracts with concentrate and service providers. Based on the Seabrook Project's existing contractual arrangements, Great Bay and Little Bay believe that the Seabrook Project has available, or under supply contracts, sufficient nuclear fuel for operations through approximately 2004. Uranium concentrate and conversion, enrichment and fabrication services currently are available from a variety of sources. The cost of such concentrate and such services varies based upon market forces.

Costs associated with nuclear plant operations include amounts for nuclear waste disposal, including spent fuel, as well as for the ultimate decommissioning of the plants. The Nuclear Waste Policy Act of 1982 (the "NWP") requires the DOE, subject to various contingencies, to design, license, construct and operate a permanent repository for high-level radioactive waste and spent nuclear fuel, which are collectively referred to as "high-level waste."

The joint owners of the Seabrook Project, through their managing agent NAESCO, entered into contracts with the DOE for high-level waste disposal in accordance with the NWP. Under these contracts and the NWP, the DOE was required to take title to and dispose of the Seabrook Project's high-level waste beginning no later than January 31, 1998. The DOE has not met its contractual and statutory requirements under the NWP calling for the DOE to begin accepting spent fuel from the industry by January 1998. The DOE announced that its first high-level waste repository will not be in operation until 2010 at the earliest.

As a result of this delay, many states and nuclear plant operators, including NAESCO, sued the DOE for injunctive relief and monetary damages. Two U.S. Courts of Appeals ordered the DOE to proceed with its high-level waste disposal obligations and ruled that plant operators are entitled to monetary damages from DOE. However, there can be no assurance that the Seabrook Project will collect damages from the DOE because, among other things, NAESCO's case against the DOE is still pending. Until the DOE begins receiving nuclear waste materials in accordance with the NWP and its contracts, nuclear plants such as Seabrook must retain high-level waste on-site or make other storage provisions. NAESCO has advised the Company that the Seabrook Project has adequate on-site storage capacity for high-level waste until approximately 2008.

In May 2001, the DOE issued a supplement to the 1999 draft Environmental Impact Statement of Yucca Mountain in Nevada, and public hearings on this document were held in the May-June 2001 period. On February 14, 2002, the DOE recommended to President Bush that Yucca Mountain in Nevada be developed as the nation's first long-term geologic repository for the disposal of spent nuclear fuel and high-level nuclear

BAYCORP HOLDINGS, LTD.

NOTES TO FINANCIAL STATEMENTS — Continued

waste. On February 15, 2002 the President notified Congress that he considers Yucca Mountain qualified for a construction permit application, taking the next step in a series of steps required for approving the site as a nuclear materials repository.

The Low-Level Radioactive Waste Policy Act of 1980 requires each state to provide disposal facilities for low-level waste ("LLW") generated within the state, either by constructing and operating facilities or by joining regional compacts with other states to jointly fulfill their responsibilities. However, the Low-Level Radioactive Waste Policy Amendments Act of 1985 permits each state in which a currently operating disposal facility is located (South Carolina, Nevada and Washington) to impose volume limits and a surcharge on shipments of LLW from states that are not members of their regional compact.

The Seabrook Project ships certain LLW to privately owned facilities in South Carolina and Utah. Since 1999, the Project has been shipping LLW to a processing facility in Tennessee where the material is subjected to separation and volume reduction methods to minimize the final volume to be disposed at a burial site. All LLW generated by the Seabrook Project that exceeds the maximum radioactivity level of LLW accepted by these facilities is currently stored on-site at the Seabrook facility. LLW from normal Seabrook Project operations will continue to be generated at a slow rate as a result of aggressive efforts at the Seabrook Project to minimize this material. NAESCO has advised the Company that the Seabrook Project's capacity for on-site storage of LLW is expected to be sufficient to meet the project's storage requirements through 2006.

B. Federal Department of Energy Decontamination and Decommissioning Assessment

Title XI of the Energy Policy Act of 1992 (the "Policy Act") provides for decontaminating and decommissioning of the Federal DOE's enrichment facilities to be partially funded by a special assessment against domestic utilities. Each utility's share of the assessment is to be based on its cumulative consumption of DOE enrichment services. As of December 31, 2001, the Company had accrued its pro rata estimated obligation of \$482,000 related to the project's prior years' usage to be paid over the 15-year period beginning October 1, 1992.

C. Price Anderson Act

In accordance with the Price Anderson Act, the limit of liability for a nuclear-related accident is approximately \$9.5 billion, effective November 18, 1994. The primary layer of insurance for this liability is \$200 million of coverage provided by the commercial insurance market. The secondary coverage is approximately \$9.3 billion, based on the 106 nuclear units (103 operating units and three units that still handle used fuel) in the United States. The secondary layer is based on a retrospective premium assessment of \$88.1 million per nuclear accident per licensed reactor, payable at a rate not exceeding \$10 million per year per reactor. In addition, the retrospective premium is subject to inflation based indexing at five year intervals and, if the sum of all public liability claims and legal costs arising from any nuclear accident exceeds the maximum amount of financial protection available, then each licensee can be assessed an additional 5% (\$4.4 million) of the maximum retrospective assessment. With respect to the Seabrook Project, Great Bay and Little Bay would be obligated to pay their ownership share of any assessment resulting from a nuclear incident at any United States nuclear generating facility. Great Bay and Little Bay estimate their maximum liability per incident currently would be an aggregate amount of approximately \$13.2 million per accident, with a maximum annual assessment of about \$1.5 million per incident, per year.

The Seabrook Joint Owners are subject to retroactive assessments if losses under those policies exceed the accumulated funds available to the insurer. The maximum potential assessments against the Joint Owners with respect to losses arising during the current policy year for the primary property insurance program and the excess property damage policies are approximately \$8.2 million and \$10.2 million, respectively. The Company's combined 15% share is \$1.2 million and \$1.5 million, respectively.

BAYCORP HOLDINGS, LTD.

NOTES TO FINANCIAL STATEMENTS — Continued

D. Nuclear Insurance

Insurance has been purchased by the Seabrook Project from Nuclear Electric Insurance Limited ("NEIL") to cover the costs of property damage, decontamination or premature decommissioning resulting from a nuclear incident and American Nuclear Insurance/Mutual Atomic Energy Liability Underwriters ("ANI") to cover workers' claims. All companies insured with NEIL and ANI are subject to retroactive assessments, if losses exceed the accumulated funds available to NEIL and ANI, respectively. The maximum potential assessment against the Seabrook Project with respect to losses arising during the current policy years are \$10.9 million. The Company's liability for the retrospective premium adjustment for any policy year ceases six years after the end of that policy year unless prior demand has been made.

Great Bay and Little Bay also independently purchase business interruption insurance from Nuclear Electric Insurance Limited ("NEIL"). The current policy is in effect from April 1, 2001 until April 1, 2002 and a renewal policy has been signed which will be in effect from April 1, 2002 until April 1, 2003. The policy provides for the payment of a fixed weekly loss amount of \$600,000 in the event of an outage at the Seabrook Project of more than 23 weeks resulting from property damage occurring from a "sudden fortuitous event, which happens by chance, is unexpected and unforeseeable." The maximum amount payable to Great Bay and Little Bay is a total of \$81.1 million. Under the terms of the policy, Great Bay and Little Bay are subject to a potential retrospective premium adjustment of up to approximately \$789,000 should NEIL's board of directors deem that additional funds are necessary to preserve the financial integrity of NEIL. Since NEIL was founded in 1980, there has been no retrospective premium adjustment; however, there can be no assurance that NEIL will not make retrospective adjustments in the future. The liability for this retrospective premium adjustment ceases six years after the end of the policy unless prior demand has been made.

The board and management of NEIL has announced, that in light of the events of September 11, 2001, the current coverage for terrorism will remain available under all the NEIL policies, but with the addition of a provision regarding the maximum recoveries available for multiple terrorism occurrences. The NEIL board approved the following changes to the NEIL policy forms to respond to the increased potential of multiple terrorism losses at insured sites: (1) increase the multiple for the maximum retrospective premium adjustments from five to ten; and (2) provide specifically for the use of NEIL resources for multiple losses resulting from terrorism within one year. Under this provision, all losses occurring within 12 months from the date of the first loss would share a single recovery of \$3.24 billion plus any amounts NEIL recovers from reinsurers or the government, with priority for the property claims over accidental outage claims.

3. TAXES ON INCOME

The following is a summary of the provision for income taxes for the years ended December 31, 2001, 2000 and 1999:

	December 31, 2001	December 31, 2000	December 31, 1999
	(Dollars in Thousands)		
Federal			
Current	\$ 60	\$ 50	\$(3,426)
Deferred	<u>(60)</u>	<u>—</u>	<u>3,426</u>
	<u>\$ —</u>	<u>\$ 50</u>	<u>\$ —</u>
State			
Current	\$ 575	\$562	\$ (817)
Deferred	<u>(575)</u>	<u>—</u>	<u>817</u>
	<u>\$ —</u>	<u>\$612</u>	<u>\$ —</u>

BAYCORP HOLDINGS, LTD.
NOTES TO FINANCIAL STATEMENTS — Continued

Accumulated deferred income taxes consisted of the following at December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
	(Dollars in Thousands)	
Assets		
Net operating loss carryforwards	\$ 74,900	\$ 78,224
Decommissioning expense	7,355	6,696
Unfunded pension expense	2,120	2,044
Accrued outage expense	977	(1,974)
Inventory	600	564
Other, net	738	6,003
Liabilities		
Utility plant	(32,000)	(30,008)
Accumulated deferred income tax asset	54,690	61,549
Valuation allowance	(54,690)	(61,549)
Accumulated deferred income tax asset, net	<u>\$ —</u>	<u>\$ —</u>

The federal income tax provision set forth above represents 0% of pre-tax loss in the years ended December 31, 2001, 2000 and 1999. The following table reconciles the statutory federal income tax rate to those percentages:

	<u>December 31, 2001</u>	<u>December 31, 2000</u>	<u>December 31, 1999</u>
	(Dollars in Thousands)		
Income (Loss) before taxes	\$21,688	\$(15,057)	\$(3,426)
Federal statutory rate	34%	34%	34%
Federal income tax liability (benefit) at statutory levels	7,374	(5,199)	(1,611)
Decrease (increase) from statutory levels State tax net of federal tax benefit	(575)	(562)	(217)
Valuation allowance	(6,859)	5,705	1,917
Alternative minimum tax	60	50	—
Other	—	(24)	89
Total Provision	<u>\$ —</u>	<u>\$ 50</u>	<u>\$ —</u>

Valuation allowances have been provided against any deferred tax assets, net due to the limitations on the use of carryforwards, discussed below, and the uncertainty associated with future taxable income. The valuation allowance of \$56,086,000 as of December 31, 1994, if subsequently recognized, will be allocated directly to paid in capital.

For federal income tax purposes, as of December 31, 2001, the Company had net operating loss carry forwards ("NOLs") of approximately \$208 million, which are scheduled to expire between 2004 and 2019. Because the Company has experienced one or more ownership changes, within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, an annual limitation is imposed on the ability of the Company to use \$115 million of these carryforwards. The Company's best estimate at this time is that the annual limitation on the use of \$115 million of the Company's NOLs is approximately \$5.5 million per year. Any unused portion of the \$5.5 million annual limitation applicable to the Company's restricted NOLs is available for use in future years until such NOLs are scheduled to expire. The Company's other \$93 million of NOLs are not currently subject to such limitations.

BAYCORP HOLDINGS, LTD.

NOTES TO FINANCIAL STATEMENTS — Continued

4. CAPITAL EXPENDITURES

The Company's cash capital expenditures, including nuclear fuel, are estimated to be approximately \$5.3 million in 2002.

5. ENERGY MARKETING

The Company utilized unit contingent and firm forward sales contracts to maximize the value of its 174 MW power supply from the Seabrook Project. The Company had not entered into any forward firm energy trading contracts as of December 31, 2001, nor does it expect to in 2002, in light of its expected sale of its ownership interest in the Seabrook Project in 2002. As a result, as of December 31, 2001, the Company had no unrealized loss or gain on the mark-to-market of forward firm energy trading contracts recorded in accrued expenses. The net change in unrealized gain on trading activities for the year ended December 31, 2001 was \$12,879,000 and is included in the accompanying consolidated statement of income for 2001. As of December 31, 2000, the Company had a net unrealized loss of approximately \$12,879,000 recorded in accrued expenses. The net change in unrealized loss on trading activities for the year ended December 31, 2000 was \$12,232,000 and is included in the accompanying consolidated statement of income for 2000.

6. PURCHASED POWER AGREEMENTS

Great Bay is party to a purchased power agreement, dated as of April 1, 1993 (the "UNITIL Purchased Power Agreement"), with UNITIL Power Corporation ("UNITIL") that provides for Great Bay to sell to UNITIL 0.8696% of the energy and capacity of Seabrook, approximately 10 MW. The UNITIL Purchased Power Agreement commenced on May 1, 1993 and runs through October 31, 2010. The current price of power under the UNITIL Purchased Power Agreement is 5.38 cents per kilowatt-hour ("kWh"). The price is subject to increase in accordance with a formula that provides for adjustments at less than the actual rate of inflation. UNITIL has an option to extend the UNITIL Purchased Power Agreement for an additional 12 years until 2022.

The UNITIL Purchased Power Agreement was front-end loaded whereby UNITIL paid higher prices, on an inflation-adjusted basis, in the early years of the Agreement and lower prices in later years. The amount of the excess paid by UNITIL in the early years of the UNITIL Purchased Power Agreement was quantified in a "Balance Account" which increased annually to a total of \$4.1 million in July 1998, and then decreased annually, reaching zero in July 2001. If the UNITIL Purchased Power Agreement had terminated prior to its scheduled termination, and if at that time there was a positive amount in the Balance Account, Great Bay would have been obligated to refund that amount to UNITIL Power. To secure the obligation of Great Bay to repay UNITIL the amount in the Balance Account, the UNITIL Purchased Power Agreement granted UNITIL a "Second Mortgage" on Great Bay's interest in the Seabrook Project. As a result of the Balance Account reaching zero in July 2001, the Second Mortgage was discharged by UNITIL in August 2001.

To secure the obligation of Great Bay under the UNITIL Purchased Power Agreement to pay damages in the event of a default by Great Bay, the UNITIL Purchased Power Agreement grants UNITIL a "Third Mortgage" on Great Bay's interest in the Seabrook Project. The Third Mortgage is subject and subordinate to (i) senior mortgages and security agreements securing Great Bay's indebtedness to lenders in an aggregate amount not to exceed \$80,000,000 and (ii) other mortgages that may be granted by Great Bay to other purchasers of power from Great Bay to secure a Balance Account or similar obligation. The UNITIL Purchased Power Agreement further provides that UNITIL's Third Mortgage will rank *pari passu* with other mortgages that may be granted by Great Bay to other purchasers of power from Great Bay to secure potential payment of damages or similar obligations.

Great Bay originally entered into a power sales agreement, dated as of November 19, 1999, with Little Bay. Great Bay and Little Bay renewed this agreement on November 19, 2001 for a one-year term ending

BAYCORP HOLDINGS, LTD.

NOTES TO FINANCIAL STATEMENTS — Continued

November 19, 2002. Under the terms of the agreement, Little Bay sells at cost, and Great Bay purchases, all of the output of the portion of Seabrook owned by Little Bay. This agreement is a unit power sale agreement. Accordingly, when all or part of Little Bay's interest in Seabrook is not producing, the obligation of Little Bay to sell (and of Great Bay to purchase) is proportionately eliminated. The agreement can be terminated at any time by mutual consent of the parties, after any notice required by law.

In February 2001, Great Bay executed a Purchase Power Agreement with Select Energy ("Select") whereby Great Bay sold 50 MWs of energy associated with the Seabrook Project to Select in exchange for 25 MWs of energy associated with Millstone Unit 2 and 25 MWs of energy associated with Millstone Unit 3. Millstone is a nuclear power plant located in Connecticut. The term of this agreement was April 1, 2001 through December 31, 2001. Delivery of power from either company was contingent on each of the units operating at a certain capacity.

As part of the agreement, Select made a prepayment of \$3.7 million to Great Bay in February 2001 and a second prepayment of \$3.3 million in March 2001. Great Bay compensated Select for the prepayments by (i) paying 12% annual interest for the period from February 6, 2001 through March 31, 2001 and (ii) giving Select a price differential for the power being exchanged until such time as the Select prepayment had been repaid. In order to collateralize the transaction, Great Bay and Little Bay each provided Select with a mortgage lien and security interest in their respective interests in the Seabrook Project. Great Bay repaid Select in 2001 and the mortgage liens and security interests were released as of July 2001 and there was no price differential in exchanging power throughout the remaining term of the agreement.

7. STOCK OPTION PLAN

On April 24, 1995, the Board of Directors of the Company established the 1995 Stock Option Plan (the "1996 Plan"), which received shareholder approval at the Company's annual meeting on April 16, 1996. On May 2, 2001 the Board of Directors of the Company established the 2001 Non-Statutory Stock Option Plan (the "2001 Plan"). The 2001 Plan will be presented for shareholder approval at the Company's annual meeting on April 24, 2002. The purpose of these plans is to secure for the Company and its shareholders the benefits arising from capital stock ownership by employees, officers and directors of, and consultants or advisors to, the Company who are expected to contribute to the Company's future growth and success. Options granted pursuant to the 1996 Plan may be either incentive stock options meeting the requirements of Section 422 of the Internal Revenue Code or nonstatutory options, which are not intended to meet the requirements of Section 422. Options granted pursuant to the 2001 plan will be non-statutory options that are not intended to meet the requirements of Section 422 of the Internal Revenue Code. The 1996 Plan and the 2001 Plan are administered by the Board of Directors of the Company and may be modified or amended by the Board in any respect, subject to shareholder approval in certain instances.

The Company accounts for the plans under APB Opinion No. 25, and as such no compensation cost has been recognized as the options are granted at Fair Market Value.

On December 3, 1998, the Board of Directors of the Company voted to reprice all of the outstanding options of the Company, at that date, as the then outstanding options were "out of the money." The Board of Directors determined that the then outstanding options no longer had the desired motivational effect or compensatory benefit for the employees. The repricing of the options was based on the current market value of the stock as of December 18, 1998. Simultaneously with the repricing, 139,583 existing options were forfeited.

FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation ("FIN 44"), effective July 1, 2000 and applied prospectively, (except for direct or indirect option repricings and the definition of an employee in which case the effective date is December 15, 1998), addresses compensation issues regarding the definition of an employee, modifications to plan awards, changes in grantee status, business combinations and share repurchase features. For transactions subject to the December 15, 1998

BAYCORP HOLDINGS, LTD.

NOTES TO FINANCIAL STATEMENTS — Continued

effective date, no compensation expense is recognized for the period between December 15, 1998 and July 1, 2000. FIN 44 requires variable accounting when direct or indirect reductions of the exercise price occur. During 2000, the Board of Directors of the Company accelerated the vesting period of the options held by certain employees of the Company. In accordance with FIN 44, the Company recorded the expense related to the repriced and the accelerated options with the total credit of \$105,000 being recorded in equity. No additional compensation expense was required during 2001 for these options.

Had compensation cost for these Plans been determined consistent with SFAS No. 123, Accounting for Stock Based Compensation, the Company's net income and earnings per share would have been reduced to the following pro forma amounts.

	2001	2000	1999
Net Income (Loss): As Reported	\$21,688	\$(15,669)	\$(4,740)
Pro Forma	19,401	(16,780)	(5,146)
Earnings (Loss) Per Share (Basic): As Reported	\$ 2.60	\$ (1.89)	\$ (0.58)
Pro Forma	2.33	(2.02)	(0.63)
Earnings (Loss) Per Share (Diluted): As Reported	\$ 2.53	\$ (1.89)	\$ (0.58)
Pro Forma	2.27	(2.02)	(0.63)

A summary of the Company's stock option plan at December 31, 2001, 2000 and 1999, and changes during the years then ended, is presented in the table and narrative below:

	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year ..	711,001	\$6.14	700,917	\$5.36	417,417	\$4.92
Granted	410,500	\$9.30	132,400	\$9.40	323,500	\$2.88
Exercised	(67,000)	\$6.31	(102,316)	\$5.01	(40,000)	\$4.90
Forfeited	—	—	(20,000)	\$4.75	—	—
Expired	(7,800)	—	—	—	—	—
Outstanding at end of year	1,046,701	\$7.39	711,001	\$6.14	700,917	\$5.36
Exercisable at end of year	682,034	\$7.24	571,668	\$5.86	476,005	\$4.92
Weighted average fair value of options granted		\$7.06		\$6.85		\$3.66

The 1,046,701 options outstanding at December 31, 2001 have exercise prices between \$2.88 and \$12.69, with a weighted average exercise price of \$7.39, and a remaining weighted average contractual life of 7 years.

The 711,001 options outstanding at December 31, 2000 had exercise prices between \$2.88 and \$12.69, with a weighted average exercise price of \$6.14, and a remaining weighted average contractual life of 5.21 years.

The 700,917 options outstanding at December 31, 1999 had exercise prices between \$2.88 and \$6.88 with a weighted average exercise price of \$5.36 and a remaining weighted average contractual life of 5.8 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2001, 2000 and 1999 respectively: weighted average risk-free interest rates of 4.9, 6.4 and 5.5 percent, expected dividend yields of 0 % and expected lives of seven years and expected volatility of 67, 71% and 54%, respectively.

BAYCORP HOLDINGS, LTD.
NOTES TO FINANCIAL STATEMENTS — Continued

9. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133, as amended by SFAS No. 137, was effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS No. 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired or substantively modified after December 31, 1997 (and, at the company's election, before January 1, 1998).

The Company completed its review and implementation of SFAS No. 133, effective January 1, 2001. The Company has taken an inventory of its contracts and identified the forward sale and purchase contracts that were marked to market in accordance with EITF 98-10, as derivatives under SFAS No. 133. The Company did not identify any other contracts to be derivatives under SFAS No. 133. The Company will continue to mark to market its forward sale and purchase contracts in accordance with EITF 98-10 and EITF 00-17 and thus the adoption of SFAS No. 133 did not have an impact on the Company's financial position or results of operations.

Additional new Statements of Financial Accounting Standards were approved and issued by the FASB in 2001. These statements are described in Footnotes 1(H) and 1(T) of the financial statements.

10. PROPERTY TAXES

For each of the tax years 1994, 1995, 1996, 1997 and 1998, Great Bay filed property tax abatement applications with the towns of Hampton and Hampton Falls. The abatement requests were denied. Great Bay filed appeals for each of those years with the New Hampshire Board of Tax and Land Appeals (the "BTLA"). On November 11, 1999, Great Bay reached agreements settling the property tax litigation. As a result of the settlement agreement, Great Bay received \$146,450 from the Town of Hampton and \$21,967 from the Town of Hampton Falls. With regard to Hampton Falls, the settlement established an assessed valuation of \$7,000,000 for 1999 and \$2,500,000 for 2000. With regard to the Town of Hampton, the settlement established an assessed valuation of \$20,000,000 for 1999 and \$15,000,000 for 2000. On November 19, 2001, Great Bay approved an Addendum to the Settlement Agreement dated November 11, 1999. This addendum extended the property tax settlement agreements through December 2002. With regard to Hampton Falls, the addendum established an assessed valuation of \$3,000,000 for 2001 and \$2,500,000 for 2002. With regard to the Town of Hampton, the settlement established an assessed valuation of \$17,000,000 for 2001 and \$16,000,000 for 2002.

11. COMMITMENTS AND CONTINGENCIES

BayCorp and its wholly owned subsidiaries currently lease office space under noncancelable operating leases. Rental expense under operating lease agreements for the years ended December 31, 2001 and 2000 was \$101,325 and \$78,747, respectively.

BAYCORP HOLDINGS, LTD.

NOTES TO FINANCIAL STATEMENTS — Continued

Future minimum commitments for operating leases as of December 31, 2001 are as follows:

<u>Year Ending</u>	<u>Operating Leases</u>
December 31, 2002.....	\$ 60,000
December 31, 2003.....	60,000
December 31, 2004.....	60,000
December 31, 2005.....	60,000
December 31, 2006.....	<u>60,000</u>
Total	<u>\$300,000</u>

12. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

As of December 31, 1999, the Company owned 100% of HoustonStreet. HoustonStreet raised additional equity in 2000 from outside investors and as a result, as of December 4, 2000, the Company's ownership fell below 50%, to 45.9%. Subsequently, the Company deconsolidated HoustonStreet as of December 4, 2000, started accounting for this investment on the equity method and suspended recognition of additional HoustonStreet losses as of that date. Prior year financial statements are presented in conformance with the equity method of accounting. Prior to the deconsolidation, the Company recognized its share of the losses of HoustonStreet in the consolidated financial statements. Summarized financial information for the Company's investment in HoustonStreet, as accounted for by the equity method, is as follows:

HoustonStreet

	<u>2000</u>	<u>2001</u>
Total assets	\$ 11,958,624	\$ 1,256,362
Total liabilities	15,395,770	14,784,077
Net sales	523,393	1,899,498
Net loss	(40,046,837)	(10,155,970)
Company's equity in net loss	(22,258,967)	(4,661,590)

During 2000, the Company loaned \$7,000,000 to HoustonStreet at an annual interest rate of 10%. Due to the continuous losses at HoustonStreet, the Company wrote down its equity investment in HoustonStreet and subsequently its loan and receivable from HoustonStreet to zero. As of December 31, 2000, the Company had no investments or receivables from HoustonStreet recognized on the accompanying balance sheet. A reconciliation from the beginning of the year carrying value to the carrying value as of December 31, 2000 is as follows:

Carrying value at December 31, 1999	\$ (3,216,957)
Company's equity in HoustonStreet net loss for the period ended December 4, 2000	(22,258,967)
Loan to HoustonStreet	7,000,000
Receivables due from HoustonStreet	569,766
Gain on deconsolidation at December 4, 2000	<u>17,906,158</u>
Carrying value of Investment at December 31, 2000	<u>\$ 0</u>

In 2001, the Company invested an additional \$450,000 in HoustonStreet and recorded this as an equity loss in HoustonStreet for the period. As of December 31, 2001, the Company had no investments or receivables from HoustonStreet recognized on the accompanying balance sheet.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BAYCORP HOLDINGS, LTD.

March 25, 2002

By: /s/ FRANK W. GETMAN JR.
Frank W. Getman Jr.
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ FRANK W. GETMAN JR.</u> Frank W. Getman Jr.	President, Director and Chief Executive Officer (principal executive officer, principal financial officer and principal accounting officer)	March 25, 2002
<u>/s/ ALEXANDER ELLIS III</u> Alexander Ellis III	Director	March 25, 2002
<u>/s/ STANLEY I. GARNETT II</u> Stanley I. Garnett II	Director	March 25, 2002
<u>/s/ JAMES S. GORDON</u> James S. Gordon	Director	March 25, 2002
<u>/s/ MICHAEL R. LATINA</u> Michael R. Latina	Director	March 25, 2002
<u>/s/ LAWRENCE M. ROBBINS</u> Lawrence M. Robbins	Director	March 25, 2002
<u>/s/ JOHN A. TILLINGHAST</u> John A. Tillinghast	Director	March 25, 2002

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Certificate of Incorporation of BayCorp Holdings, Ltd. (1)
3.2	By-laws of BayCorp Holdings, Ltd. (1)
10.1	Agreement Between Bangor Hydro-Electric Company, Central Maine Power Company, Central Vermont Public Service Corporation, Fitchburg Gas and Electric Light Company, Maine Public Service Company and EUA Power Corporation relating to use of certain transmission facilities, dated October 20, 1986.(2)
10.2	Limited Guaranty by Eastern Utilities Associates of Decommissioning Costs in favor of Joint Owners of the Seabrook Project, dated May 5, 1990.(2)
10.3	Composite Agreement for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units, as amended, dated November 1, 1990.(2)
10.4	Seventh Amendment to and Restated Agreement for Seabrook Project Disbursing Agent as amended through and including the Second Amendment, by and among North Atlantic Energy Service Corporation, Great Bay Power Corporation and other Seabrook Project owners, dated November 1, 1990.(2)
10.5	Seabrook Project Managing Agent Operating Agreement by and among the North Atlantic Energy Service Corporation, Great Bay Power Corporation and parties to the Joint Ownership Agreement, dated June 29, 1992.(2)
10.6	Settlement Agreement by and among EUA Power Corporation, Eastern Utilities Associates and the Official Bondholders' Committee, dated November 18, 1992.(2)
10.7	Purchased Power Agreement between UNITIL Power Corporation and Great Bay Power Corporation, dated April 26, 1993.(2)
10.8	Power Purchase Option Agreement between UNITIL Power Corporation and Great Bay Power Corporation, dated December 22, 1993.(2)
10.9	Second Mortgage and Security Agreement between UNITIL Power Corporation and Great Bay Power Corporation, dated December 22, 1993.(2)
10.10	Third Mortgage and Security Agreement between UNITIL Power Corporation and Great Bay Power Corporation, dated December 22, 1993.(2)
10.11	Registration Rights Agreement between Great Bay Power Corporation and the Selling Stockholders, dated April 7, 1994.(2)
10.12	Amendment to Registration Rights Agreement between Great Bay Power Corporation and the Selling Stockholders, dated November 23, 1994.(2)
10.13	Stock and Subscription Agreement among Great Bay Power Corporation and the Selling Stockholders, dated April 7, 1994.(2)
10.14	Acknowledgement and Amendment to Stock and Subscription Agreement, dated November 23, 1994.(2)
10.15	Settlement Agreement by and among Great Bay Power Corporation, the Official Bondholders' Committee and the Selling Stockholders, dated September 9, 1994.(2)
10.16	Letter Agreement, dated December 20, 1994, between Great Bay Power Corporation and the Selling Stockholders amending Registration Rights Agreement, as previously amended on November 23, 1994.(2)
10.17	Letter Agreement, dated March 29, 1995, between Great Bay Power Corporation and the Selling Stockholders amending Registration Rights Agreement, as previously amended on November 23, 1994 and December 20, 1994.(2)
10.18	1996 Stock Option Plan of BayCorp Holdings, Ltd., as amended (1)(4)
10.19	2001 Non-Statutory Stock Option Plan of BayCorp Holdings, Ltd.(4)(5)
10.20	Employment Agreement between Frank W. Getman Jr. and BayCorp Holdings, Ltd., dated May 25, 2000.(4)(11)
10.21	Employment Agreement between Frank W. Getman Jr. and HoustonStreet Exchange, Inc., dated September 1, 2000.(4)(11)
10.22	Incentive Stock Option Agreement, dated as of August 1, 1995, by and between Frank W.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
	Getman Jr. and Great Bay Power Corporation.(4) (6)
10.23	Incentive Stock Option Agreement, dated as of September 17, 1996, by and between Frank W. Getman Jr. and Great Bay Power Corporation.(4) (7)
10.24	Incentive Stock Option Agreement, dated July 30, 1999, by and between Frank W. Getman Jr. and BayCorp Holdings, Ltd.(4) (10)
10.25	Non-Statutory Stock Option Agreement, dated May 2, 2001, by and between Frank W. Getman Jr. and BayCorp Holdings, Ltd.(4) (12)
10.26	Stock Option Agreement, dated May 25, 2000, by and between Anthony M. Callendrello and BayCorp Holdings, Ltd.(4) (12)
10.27	Non-Statutory Stock Option Agreement and related Incentive Stock Option Agreement, each dated May 2, 2001, by and between Anthony M. Callendrello and BayCorp Holdings, Ltd.(4) (12)
10.28	Non-Statutory Stock Option Agreement, dated October 22, 2001, by and between Frank W. Getman Jr. and BayCorp Holdings, Ltd.(4) (12)
10.29	Non-Statutory Stock Option Agreement, dated October 22, 2001, by and between Anthony M. Callendrello and BayCorp Holdings, Ltd.(4) (12)
10.30	Non-Statutory Stock Option Agreement, dated October 22, 2001, by and between Patricia T. Barnard and BayCorp Holdings, Ltd.(4) (12)
10.31	Retention and Incentive Agreement, dated November 21, 2001, by and between Patricia T. Barnard and BayCorp Holdings, Ltd.(4) (12)
10.32	Retention and Incentive Agreement, dated November 30, 2001, by and between Anthony M. Callendrello and BayCorp Holdings, Ltd.(4) (12) †
10.33	Retention and Incentive Agreement, dated December 3, 2001, by and between Frank W. Getman Jr. and BayCorp Holdings, Ltd.(4) (12) †
10.34	Promissory Note, dated March 7, 2002, by John A. Tillinghast in favor of BayCorp Holdings, Ltd.(4) (12)
10.35	Stock Pledge Agreement, dated March 7, 2002, by and between John A. Tillinghast and BayCorp Holdings, Ltd.(4) (12)
10.36	1999 Stock Incentive Plan of HoustonStreet Exchange, Inc.(4) (10)
10.37	Amended and Restated Incentive Stock Option Agreement, dated as of July 30, 1999, by and between Frank W. Getman Jr. and HoustonStreet Exchange, Inc. (first of two identically titled and dated agreements).(4) (10)
10.38	Amended and Restated Incentive Stock Option Agreement, dated as of July 30, 1999, by and between Frank W. Getman Jr. and HoustonStreet Exchange, Inc. (second of two identically titled and dated agreements).(4) (10)
10.39	Asset Purchase Agreement by and between Montaup Electric Company and Great Bay Power Corporation, dated as of June 24, 1998.(8)
10.40	Assignment by and between Great Bay Power Corporation and Little Bay Power Corporation dated as of August 28, 1998.(9)
10.41	Escrow Agreement by and between Little Bay Power Corporation and Citizens Bank New Hampshire dated November 10, 1999.(9)
10.42	Series A Convertible Preferred Stock Purchase Agreement, dated as of February 2, 2000, as amended, by and among HoustonStreet Exchange, Inc. and the Purchasers (as defined therein).(10)
10.43	Form of Omnibus Signature Page dated as of March 6, 2000 relating to the preceding exhibit.(10)
10.44	Fourth Amended and Restated Stockholders' Voting Agreement, dated as of March 30, 2001, by and among BayCorp Holdings, Ltd., HoustonStreet Exchange, Inc. and the Purchasers (as defined therein).(12)
10.45	Amended and Restated Investor Rights Agreement dated as of March 30, 2001, by and among BayCorp Holdings, Ltd., HoustonStreet Exchange, Inc. and the other parties named therein.(12)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.46	Third Amended and Restated Rights of First Refusal and Co-Sale Agreement dated as of March 30, 2001, by and among BayCorp Holdings, Ltd., HoustonStreet Exchange, Inc. and the other parties named therein.(12)
10.47	Senior Secured Note and Warrant Purchase Agreement, dated as of March 30, 2001, by and among BayCorp Holdings, Ltd., HoustonStreet Exchange, Inc. and the Purchasers (as defined therein).(12)
10.48	Series C Preferred Stock Warrant Agreement, dated as of March 30, 2001, by and among BayCorp Holdings, Ltd., HoustonStreet Exchange, Inc. and the Holders (as defined therein).(12)
10.49	Common Stock Warrant Agreement, dated as of March 30, 2001, by and among BayCorp Holdings, Ltd., HoustonStreet Exchange, Inc. and the Holders (as defined therein).(12)
10.50	Senior Secured Promissory Note, dated March 30, 2001, by HoustonStreet Exchange, Inc. in favor of BayCorp Holdings, Ltd.(12)
10.51	Series C Warrant No. W-C001, dated March 30, 2001, issued by HoustonStreet Exchange, Inc. to BayCorp Holdings, Ltd.(12)
10.52	Series C Warrant No. W-C006, dated March 30, 2001, issued by HoustonStreet Exchange, Inc. to James S. Gordon.(4)(12)
10.53	Series C Warrant No. W-C010, dated March 30, 2001, issued by HoustonStreet Exchange, Inc. to Omega Advisors, Inc.(4)(12)
10.54	Common Stock Warrant No. W-001, dated March 30, 2001, issued by HoustonStreet Exchange, Inc. to BayCorp Holdings, Ltd.(12)
10.55	Common Stock Warrant No. W-006, dated March 30, 2001, issued by HoustonStreet Exchange, Inc. to James S. Gordon.(4)(12)
10.56	Common Stock Warrant No. W-010, dated March 30, 2001, issued by HoustonStreet Exchange, Inc. to Omega Advisors, Inc.(4)(12)
10.57	Senior Secured Promissory Note, dated March 30, 2001, by HoustonStreet Exchange, Inc. in favor of James S. Gordon.(4)(12)
10.58	Senior Secured Promissory Note, dated March 30, 2001, by HoustonStreet Exchange, Inc. in favor of Omega Advisors, Inc.(4)(12)
10.59	Lease between Eliot Commons, LLC as Lessor and BayCorp Holdings, Ltd. as Lessee, 51 Dow Highway, Suite 7, Eliot, Maine 03903, dated as of January 3, 2002(12)
21.1	List of Subsidiaries of BayCorp Holdings, Ltd.(12)
23.1	Consent of Arthur Andersen LLP.(12)
99.1	Letter to the Commission from BayCorp Holdings, Ltd. dated March 19, 2002 relating to representations of Arthur Andersen LLP.(12)
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(1)	Filed as an exhibit to the Registration Statement on Form S-4 of BayCorp Holdings, Ltd. (Registration Statement 333-3362) filed on July 12, 1996 and incorporated herein by reference.
(2)	Filed as an exhibit to the Registration Statement on Form S-1 of Great Bay Power Corporation (Registration No. 33-88232) declared effective on April 17, 1995 and incorporated herein by reference.
(3)	Filed as an exhibit to the Quarterly Report on Form 10-Q of BayCorp Holdings, Ltd. for the quarter ended July 30, 1998 (File No. 1-12527) on August 13, 1998 and incorporated herein by reference.
(4)	Management contract or compensation plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.
(5)	Filed as an exhibit to the Registration Statement on Form S-8 of BayCorp Holdings, Ltd. (Registration Statement 333-71976) filed on October 22, 2001 and incorporated herein by reference.
(6)	Filed as an exhibit to the Quarterly Report on Form 10-Q of Great Bay Power Corporation for the quarter ended March 31, 1995 (File No. 0-25748) on May 9, 1995 and incorporated herein by reference.
(7)	Filed as an exhibit to the Company's Annual Report on Form 10-K (File No. 1-12527) on March 26, 1997 and incorporated herein by reference.
(8)	Filed as an exhibit to the Quarterly Report on Form 10-Q of BayCorp Holdings, Ltd. for the quarter ended June 30, 1998 (File No. 1-12527) on August 13, 1998 and incorporated herein by reference.

- (9) Filed as an exhibit to the Current Report on Form 8-K of BayCorp Holdings, Ltd. (File No. 1-12527) dated November 19, 1999 and filed on December 3, 1999 and incorporated herein by reference.
 - (10) Filed as an exhibit to the Company's Annual Report on Form 10-K (File No. 1-12527) on March 30, 2000 and incorporated herein by reference.
 - (11) Filed as an exhibit to the Company's Annual Report on Form 10-K (File No. 1-12527) on March 30, 2001 and incorporated herein by reference.
 - (12) Filed as an exhibit to this Annual Report on Form 10-K.
- † Confidential materials omitted and filed separately with the Commission.

BOARD OF DIRECTORS

Frank W. Getman Jr.

Chairman of the Board
President and Chief Executive Officer
BayCorp Holdings, Ltd.

Alexander Ellis III

Partner
Rockport Partners, LLC and
Rockport Capital Partners, LLC

Stanley I. Garnett II

Associate Partner
PA Consulting

James S. Gordon

President
Energy Management, Inc.

Michael R. Latina

Independent Consultant - Energy Industry

Lawrence M. Robbins

Chief Executive Officer
Glenview Capital Management

John A. Tillinghast

President
TILTEC

OFFICERS

Frank W. Getman Jr.

President and Chief Executive Officer

Anthony M. Callendrello

Chief Operating Officer and Secretary

Patricia T. Barnard

Vice President of Finance and Treasurer

CORPORATE COUNSEL

McLane, Graf, Raulerson & Middleton, P.A.
900 Elm Street
Manchester, New Hampshire 03105

Schnader Harrison Goldstein & Manello
265 Franklin Street
Boston, Massachusetts 02110-3192

TRANSFER AGENT

American Stock Transfer and Trust Company
59 Maiden Lane
New York, New York 10038
Attention: Shareholder Services
(877) 777-0800
www.amstock.com

INDEPENDENT AUDITORS

Arthur Anderson LLP
225 Franklin Street
Boston, Massachusetts 02110-2812

CORPORATE OFFICES

51 Dow Highway, Suite 7
Eliot, Maine 03903

ANNUAL MEETING

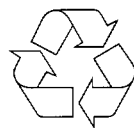
The Annual Meeting of Stockholders
will be held on April 24, 2002
at 10:00 a.m. EST at the offices of the
American Stock Exchange, 86 Trinity Place,
New York, New York.

FORM 10-K

For a copy of the Form 10-K Annual Report
filed with the Securities and Exchange Commission,
write to the Company's corporate offices
or call (207) 451-9573.

STOCK INFORMATION

The Company's stock is listed on
the American Stock Exchange under
the symbol 'MWH'.



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